COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, January 22, 1908.

The committee met at 10.30 o'clock a. m.

Present: Representatives Fowler (chairman), Prince, Powers, McMorran, McCleary, Waldo, Hayes, Weeks, Burton, McKinney, Lewis, Pujo, Glass, Gillespie, James, Crawford, and McHenry.

Present, also, Hon. George F. Burgess, Representative from Texas, and Hon. E. L. Fulton, Representative from Oklahoma.

(The committee thereupon proceeded to the consideration of the various bills pending before it dealing with financial questions.)

STATEMENT OF HON. GEORGE F. BURGESS, REPRESENTATIVE FROM TEXAS.

Mr. BURGESS. Mr. Chairman, I have pending before this committee a banking and currency commission bill, H. R. 9180, to provide for the creation of a banking and currency commission, directing its investigation, and report to the next session of this Congress, and for other purposes, and I wish to address myself briefly and strictly to it.

The CHAIRMAN. What bill is it?

Mr. BURGESS. It is a bill to create a banking and currency commission, which shall report to Congress not later than December 1 of this year.

The CHAIRMAN. What is the number of the bill, Mr. Burgess?

Mr. BURGESS. I can not carry those numbers in my head to save my life. I will state the substance of it, so that it will not be necessary for you gentlemen to read it.

It provides, in brief, that the President shall appoint a banking and currency commission of nine members—two from the Eastern States, two from the Middle Western States, two from the Southern States, two from the rest of the country, and one from the Republic at large. It defines briefly the duties of the commission, one of which is to have public hearings of not less than three days each at the cities of New York, Chicago, St. Louis, Denver, Fort Worth, New Orleans, and Atlanta. It provides that a stenographic report of those hearings, and such others as they may see fit to have, under regulations and rules to be prescribed by the commission, shall be filed with the Clerk of the House not later than December 1, 1908; and also that not later than that date the commission shall file a report and recommendation to Congress as to the best banking and currency system they are able to devise as the result of these hearings and the study of the question.

My reasons for that procedure I wish briefly to give. I have heard but two objections to that method of procedure. One is that it is a

confession of our ignorance and incompetency to deal with the question. I do not care to discuss that at length. I dismiss it with the brief remark that so far as I am able to discover nobody can be hurt by a confession of the truth. If there is any great subject pending in this country about which ignorance is dense and universal, even among those who are directly dealing with it, it is banking and currency. The reason for it is rather obvious. In the first place, we have never had any general discussion of the subject all over the country. We have never had that; and I hope—and that is one of the objects of my bill—that it can be kept out of partisan politics. Fortunately, it has not yet gotten into partisan politics. It is purely a great business question. I find, in talking with bankers who have been pursuing the business under existing law for all the way from ten to twenty-five years, that all they know about banking and currency is such knowledge of the laws that exist as it is absolutely essential for them to have in order to run the business. The rest of their time they have given to the practical details of banking, in an effort to make money under this system, without any study of the system or its defects or advantages.

I have yet to find one of those bankers who knows anything of the banking and currency systems of Germany, France, England, or any of the great progressive countries that, in my judgment, are out of sight ahead of us on this question. I have yet to find a Member of Congress who pretends to understand the banking and currency system of any country, his own or any other. I do not believe there are five men in the House that agree about any sort of a banking and currency system. It would seem perfectly clear that with this dense and universal ignorance among the people pursuing the business, and among Senators and Members of Congress themselves, and with a thousand diverse views about it, a present system that is nothing but a piece of mingled ignorance, demagogy, and temporization, we will not be able to pass any sort of banking and currency measure of which any of us could possibly be proud in the coming years; and, in my judgment, it is certain that if we attempt it at this session the whole subject will be drawn into the vortex of partisan politics at the most unfortunate stage in the political history of this country for the last twelve years.

We all understand how the parties are all divided now about everything under the sun, from police courts to States' rights, from the control of railroads to the control of quarantine, and all along the line. We are all divided; the whole thing is hopelessly mixed up, and nobody can tell what is going to happen in the next Presidential election in either party.

If you drag financial legislation or the banking and currency system into the coming Congressional, Senatorial, and Presidential contests, nobody can tell what will happen. It is absolutely certain, in my judgment, that it will only hurt the question and obscure it and get partisan prejudice and sectional feeling all mixed up with a great business question and render its ultimate solution infinitely more difficult.

If this bill that I propose could be adopted, it would at once lift the whole subject out of the domain of partisan politics, and every sensible man in every party could say, "Now, let us study this question; we will run our Presidential and Congressional campaigns outside of

it, and we will study this question, and we will see what can be done in the interest of the whole country, without reference to party and without reference to section;" and that is exactly what ought to be done.

I am not afraid, and I do not see any use in any of us being afraid, to tell the truth about our own ignorance and incapacity on this subject. I am frank to admit it myself and I am ready to admit it for almost every colleague of mine with whom I have talked. [Laughter.]

The CHAIRMAN. Confession is good for the soul.

Mr. BURGESS. Yes, sir; and good for the country, too. I think perhaps our constituents would have more faith in us if we did not claim to know everything about everything all the time. [Laughter.] If we admitted to them once in a while that we were not as smart as they thought we ought to be, I think perhaps it would be beneficial to all of us. [Laughter.]

Another thing: We are here, if we attempt to legislate, as financial doctors. The chief trouble about medicine is not because of disagreement as to different remedies—not at all. Great physicians agree about remedial courses in the main. The disagreement arises about the diagnosis, about what is the matter with the fellow. Now, if anybody has found anybody that has offered anything like even a partially reasonable diagnosis of the causes which have produced the present situation, I would like to have his picture.

One gentleman, eminent in Republican politics, masterly in ability, and dauntless in fight, who challenges my admiration, although I can agree to hardly anything that he has said so far that I have read [Senator Foraker], says that this whole thing is just "Bryan, Roosevelt, and raid on the railroads." Well, I think there is something in that—just a little. It is unquestionably true that to attempt to regulate billions of dollars' worth of property by affecting the income, which would affect the bonds, would necessarily have a tendency to depress the value of those securities, and especially those that had been speculatively boosted; although I have but little concern, and I presume very few honest men have much concern, about that feature. But that is only one small thing.

Another man says: "Wall street speculation is the only cause for all this trouble. The gamblers tied up all the banks, and" (if you will excuse an emphatic Texas expression) "they raised all the hell." Well, I think there is something in that—just how much I do not know, and I do not think anybody else knows. But certainly that can not have been even the chief cause, let alone the whole cause of this trouble.

Another man comes along and says: "All of our reserves are tied up in the money centers, and those fellows have shrewdly taken advantage of the situation; the men who owned a lot of ready deposits in gold have taken them out and put them in their safe-deposit boxes, not for fear of losing their deposits, but in order to help scare the country and play bears, and then use their money for their own advantage afterwards." I think there is a good deal in that; just how much I do not know.

Another one says: "It was a strife among the bears and bulls over stocks and bonds generally—not so much speculatively, but competitively with the different systems—Harriman against somebody, and

somebody against Harriman." I think there is something in that; just how much I do not know—nobody else knows.

Another one says: "We have been living too high. We have been spending too much money. We have gotten extravagant. We are buying too much from everybody and paying too much for everything." I think there is a good deal in that, too—a good deal in that. Just how much I do not know.

Another one says: "We have been investing too rapidly. We have gone beyond a reasonable credit basis, based upon our actual cash and property situation." I think there is a good deal in that—a good deal in that. How much I do not know.

If I were to be asked to diagnose and size up the whole situation as I see it—and I admit that this is only a general guess at it—I should say that the country for ten years has been going through a protracted prosperity spree, and the sobering-up process was inevitable. You can not cure the condition by any sort of legislation you may pass. The man is a demagogue who says you can. That is my honest opinion. You can not cure this situation by any kind of a salve that can be fixed up here by legislative doctors and spread over the sores that exist. That is my notion about it. I think we have got to go through a sobering-up, shake-out process. In a general way, my idea is that there is something in all these things as correlated and acting in accord under a general condition which, in a way, is responsible for the whole trouble.

All of us recognize that for the last twelve years two things have been constantly going on, tending tremendously to affect values and incite investment and extend credit unduly, namely, we have had an increasing volume of exports over imports going on steadily for about twelve years, so that in that period the balance of trade in our favor has, in round numbers, been about $4,000,000,000. Cooperating with that, we have been steadily pouring into our money volume hundreds of millions of dollars of increased circulation of gold, gold certificates, national-bank notes, even of silver coinage, of every form of money, and all of it good. There has been no question during this time, or any period of this time, as to whether one dollar would be as good as any other dollar, and whether it would be a silver or a gold price, or a rag-money price, or anything else. Naturally, that could have but one effect—to cause a general rise in prices everywhere; and it was the bull era. Everybody figured in this way: "If I can buy anything now at a fair value, it is a cinch that I am going to make money, because the price is going up all the time. I don't care whether it is land, or cattle, or goats, or whatever else it is, if I can buy it now I can make money, and I do not need much money either." Confidence was so broad and widespread, so artistically boosted by my Republican friends, that the whole country was about to believe that nothing unfortunate could happen if we had a Republican Administration; it would just be impossible to have any trouble. [Laughter.] And the most of the people foolishly believed in that. I believe some of the people who have been taught to believe it themselves got caught in this swirl. I have no doubt of it. The whole country was boosted. Everybody got to believing that a panic could not occur; that everybody was going to get rich, and if a fellow did not get rich there was nobody to blame but himself; he was just "no account;" and they went to

buying everything, and inflated credit beyond all conceivable limits—inflated all values beyond all just relations. Value is a mere creature of relation, as everybody knows who knows anything worth knowing about the money question or the banking and currency question. The whole thing resolves itself into a question of relation; and whenever you distend the relation of credits and values to the actual, practical working basis of all the property and all the business of the country you may look for a panic, because nothing else can happen. There must be a readjustment. It is just like the inexorable working of the law of the tides or any of the great natural forces.

In my judgment that is exactly what happened. Now, gentlemen may think, if they do not say, "If that theory is true, we do not need any legislation at all; and what is the use of this banking and currency commision?" I have not quite gotten to that position, but I am very much nearer to it than some people are. I do not believe that the wisdom of a Solomon, under our conditions—growing, developing along all lines of progress as no other country has grown or perhaps ever will in the history of the world—can devise a banking and currency system, or a coinage system, or both combined, that will absolutely prohibit in this country the recurrence of panics of greater or less force, dependent upon conditions. I think the best that can be done is to devise a banking system that will prevent panics to the greatest extent that it is possible for legislation to prevent these things. In other words, I believe that an adequate banking and currency system can not prevent recurrent periods of inflation and depression, can not prevent a readjustment now and then of distended and extended credits and values, but that it can lessen largely the force of the shock when it comes. I believe that is the best that we can hope to accomplish. And the only reason, in my judgment, for entering into this matter is not with the hope of now curing anything, not with the hope of immediately restoring confidence, for, in my judgment, you can no more legislate confidence into people than you can righteousness or sobriety or honesty or virtue. It is something that grows out of relations and conditions, and that people exercise for themselves, in spite of your legislation.

But you could provide a system, in my judgment (if you could do it by a method that would reach a common result) that would be generally accepted in the country, which is the important thing; because confidence will work then as it does in the case of every other great business proposition, which would largely prevent the recurrence of panics. And I am much interested in that in a nonpartisan way, for it is my belief that just as soon as we go through this shake-out process and get on our feet, and confidence flows into men's hearts again (as it will, undoubtedly), we will have another period of perhaps ten or twelve years in which the same thing will go on by leaps and bounds, perhaps to a greater extent than it has in the last ten years. I see no reason on earth why it should not. People in the Northwest have not quit raising wheat; people in the South have not quit raising cotton; cattle still grow all over this country; the factories are still here; the people are still here; industry, intelligence, and economy are still here, and economy and industry are increasing rapidly under present conditions; and it is certain, in my judgment, that this so-called panic is going to prove a blessing in disguise to

this great country. It is bound to. We will have a more intelligent conception of conditions; we will have a better conception of the relation of values and credits; we will have more intelligent and wise and conservative banking, which is one of the main things; and we will have the same great forces to operate and cooperate to produce another era of rising prices and of universal progress.

And who is President or who runs the politics of a country will not matter much. I have never been much of a believer myself in teaching the people all the time that prosperity and progress depend on political power. I have a contempt for that sort of doctrine. I do not care whether it comes from a Republican or a Democrat, I do not believe there is much in it. I think that progress and growth and evolution and power in this country are not going to grow out of politics, but are going to grow out of individual energy and intelligence cooperating with the great natural forces that exist here, and that will be irresistible, no matter who is in power politically.

Mr. CRAWFORD. In other words, you believe it will happen in spite of politics?

Mr. BURGESS. Surely; just as I believe this country has prospered beyond anybody's expectations, in spite of the Republican party. [Laughter.] I think they have done what they could to prevent it, along many lines; but we are going on just the same, and very likely the Republicans would think the same thing if we had been on top and this had all happened. The truth of it is, we may as well quit, all of us, playing this demagogue game that one party means adversity and another prosperity. That is all tommy rot, and all of us know it in our hearts. That is the truth about it.

Just a word more about this important feature: My service in Congress has grown exceedingly pleasant, especially on the personal side. I have made many friendships here, without any reference whatever to politics; for I have a contempt for a man's friendship that is grounded on either religion or politics. There is nothing sincere or valuable about it; and whenever a crisis comes it will vanish into thin air.

Mr. JAMES. It grows more pleasant at each recurring election. [Laughter.]

Mr. MCKINNEY. At each increase of salary, too.

Mr. BURGESS. Yes. I have formed many of those friendships that will last through life. I came here a pretty narrow, intense Democrat. I rather had the idea that a Republican, for instance, like my good friend from Maine over there, with whom I served in the first committee of Congress I got on, really, if closely inspected, had horns in his hair [laughter]; and I had an idea that everything ought to be settled by my own party, and that the Republican party ought not to have anything to do with anything, and that the whole country was ruined if they did. Now, in principle I am a better Democrat, in my judgment, than I have ever been; but I am far less partisan. I have radically changed in this view of statesmanship and politics. Instead of believing that every issue ought to be at once drawn into the maelstrom of partisan politics, my view is that as long as it is possible every issue, and especially every business question, ought to be kept out of the domain of politics; and that we get a better settlement of questions when we all cooperate together upon broad-gauge, patriotic, nonsectional, nonpartisan lines

than we do in any other conceivable way. And I am extremely anxious that this great question, which I think involves much of the future of the country, shall be settled in that way. For while I believe, as I have said, that the country will be prosperous again in another period, if we could have a sensible, broad-gauge, businesslike revision of our whole banking and currency system, making it adaptable to all sections and all conditions, and putting it beyond the control of any section or any State, I believe that when that era comes it will be longer maintained and more universally beneficial than it would be without such action.

I have an infinite faith in the patriotism and wisdom of the American people when you do not stir them up on sectional or partisan lines; and when you do I have not much faith in what is done. North or south, east or west, they are all much alike. When you get them stirred up they run off on their traditional tangents—always wrong, no matter which section it is. We are all the product of environment. If I had been raised in Illinois, and run when I was a young man with Abraham Lincoln, I would have thought he knew it all and was the greatest and best man in the country, and that Jeff Davis and Robert E. Lee were simply nothing. It is very natural, as it is, that I think rather the converse, having been raised down in the other section. [Laughter.] That is all there is about it, and that is the principle we go on all the way around.

Banking is a colorable business. It takes color from its environment. It has to. Banks which are in manufacturing sections, banks which are in cotton sections, banks which are in wheat sections, banks which are in mining sections, banks which are in cattle sections, banks which are in lumber sections necessarily partake of the business situation and conditions with which they must locally deal. And so if we have a general, comprehensive system all these elements must be brought into cooperation and not forced into antagonism, to the injury of all.

Now, Mr. Chairman, I think highly of what the bankers have done. But, unfortunately, and I think in the main unwisely, too, and unfairly, the banker as a rule bears about the same relation to the populace that the railroad magnate does. They look on him with suspicion. They suspect that he has a rabbit foot in every pocket, and that he wants a scheme by which they will be further milked in his individual interest. So that the country is prepared to discount at the start any recommendation from the bankers' associations. They look on them something like the good prohibition people would look upon a recommendation of the brewers' associations. [Laughter.]

How can all this be avoided? Can it be avoided in any better way than by having a nonpartisan, nonsectional commission appointed by the President which will bring into cooperation nine of the ablest and best men of this country? No President of the United States would dare, or would desire, as far as that is concerned, to do anything else under this sort of a bill than to attempt to pick two of the very best men in character and capacity that each section could furnish to put on this commission. Hearings are provided for in all the great centers that touch the different great industries of the country—New York, which would reach all of New England and all of the manufacturing and stock-jobbing centers; Chicago, which would touch all the great wheat and northwest lumber interests; St. Louis, which

would reach all the great corn section and agricultural section of the country; Denver, which would reach all the great mining section; Fort Worth, which would reach the greatest cattle section in the world—the whole thing is cow business out there. [Laughter.] Why, if all the cowmen "lay down" on my friend Gillespie he would not get a hatful of votes. They run that section down there; and if this commission is created I would like my friend Gillespie's town put in, for I think it would help him. I hope those fellows will not beat him. They will make a great mistake if they do; but, then, people do fool things sometimes. [Laughter.] I have been threatened myself occasionally. And hearings are also provided for in New Orleans, which touches the great sugar and rice industries, and in Atlanta, which is in the heart of the cotton country and the cotton-mill country.

You may say: "We can have hearings here. We are not a lot of incompetents." Well, I do not know about that. [Laughter.] I do not want to reflect on anybody. I have made confession for myself. If any of you gentlemen agree with me, I will not require you to speak out now. I have no authority to do so. But what will your hearings amount to? What do these hearings ordinarily amount to in committee? You and I, who come here, know. It is a cinch that the fellow that wants a favorite scheme of his adopted, and has a lot of money with which to pay his way and his hotel bills, will be here. That is a cinch. But who represents these great interests all around the country? What will the hearings amount to, except to give some partial view, and what approbation on the part of people will they bring? That is the real question. This is a representative Government. If the people want rag money or any other kind of money, or any other sort of banking system, they are entitled to it. That is the truth about it; and we ought to attempt to give them what they want. Why, I have no more intelligent idea about what sort of a banking and currency system the intelligent people of my district want than a goat. Have you any idea what your people want, or anybody else?

You may say: "We can give them what we think they ought to have, and then invite their approval." I will tell you what you will find as the result of that. A few broad-gauge, courageous men, with the real elements of leadership, perhaps to the number of about fifteen in the House (and it is doubtful just who of us would be in that class, and I will not discuss that at all), would be willing to proceed on that basis. But you and I know that the average Member of Congress would at once get his ear to the ground and would be disposed to "head up" in his vote and in his views the way that would maintain that sympathetic, telephonic communication between him and his constituents, and preserve the continuity of office so dear to his heart.

Mr. Weeks. Mr. Chairman, I would like to ask Mr. Burgess if he thinks that the people of his district or any other district know what they want?

Mr. Burgess. I do not. That is exactly my contention; and it is natural that they should not, because there has never been any public discussion of this great question. If you gentlemen will remember, we had the Monetary Commission——

The Chairman. Right on that point, Mr. Weeks, I will state that you asked the question I have been hoping Mr. Burgess would anticipate, or that somebody would ask. Can those people tell you what they ought to have?

Mr. BURGESS. I think so, Mr. Chairman.

The CHAIRMAN. How can they tell you anything about the economic laws that control or the principles of banking, the men that are in the cotton business, or the men that are in the cattle business, or the men that are in the wheat business? How can they necessarily tell you anything about Mr. Burgess's bill?

Mr. BURGESS. I will tell you. I think there is an almost universal popular misconception of mankind as to the difference in judgment between men. It does not grow out of difference in capacity so much as it does out of difference in information.

The CHAIRMAN. Let me ask you another question, and then you can complete your remarks.

Mr. BURGESS. Very well.

The CHAIRMAN. In other words, suppose that in 1895 or 1896 such a commission had asked about gold and silver in the United States—nine-tenths of the people would have said: "We want free silver" or "both gold and silver," would they not?

Mr. BURGESS. I expect so.

The CHAIRMAN. Go on, now; I simply wanted to illustrate the point.

Mr. BURGESS. I expect so.

The CHAIRMAN. But after the discussion they knew more.

Mr. BURGESS. Now let me give you my idea; and that is exactly what I am trying to provide for in this bill. I am trying to provide for the local dissemination of knowledge, and a local discussion among all sections of this very problem; because I believe that whenever you get the whole people to study a question, independent of sectionalism and partisan politics—which tended to obscure the money question, as we all know—then you will get finally an overwhelming cooperation along sensible lines. I believe that the common people have more capacity than we are wont to think. My experience as a lawyer has been this: Take twelve honest farmers who never read the Constitution, and they do not have to have gone through a law school to be able to understand the force of a constitutional point, if you have sense enough to make it clear to them; and they will reach as logical a result in their verdict, and as certain a result, as twelve of the most talented constitutional lawyers, as a matter of fact. Now, take it on any other question. All you have to do is to give the ordinary man the information necessary upon which to reach conclusions, and he will reach just ones. There is not so much difference in men's capacity to reason as there is in the horizon of their knowledge.

Mr. WEEKS. Mr. Burgess, you referred to Mr. Gillespie, for instance, as representing a Texas district.

Mr. BURGESS. Yes.

Mr. WEEKS. I would like to ask you if, in your judgment, that district of the city of Fort Worth could send a man on this commission which you suggest, or any other commission, which could better represent it than Mr. Gillespie? He is sent here for that purpose. This is a representative Government; and he is studying this question and has been. Where is the man in Fort Worth that is going to represent them on the currency question any better than Mr. Gillespie?

Mr. BURGESS. I will give you the complete answer to that, without any reflection on Mr. Gillespie or any other member of the committee. If you will take this very committee and provide for full, public hearings all over the country, so that time may be given for the public mind to act, and so that this information may be brought out in the daily papers of New York and Chicago and St. Louis and Denver and Fort Worth and New Orleans and Atlanta, and representative citizens in all these great sections can appear before this committee and have three or four days' hearings, and all of that knowledge be disseminated and the people interested, I would just as soon trust the recommendation of this committee as perhaps any like number of men that might be appointed by the President. The personnel is not so important in the matter, except that of course they ought to be men representative of those localities.

Mr. WALDO. Mr. Burgess, you have evidently thought about this question a good deal. There are evidently but two plans now under consideration, or that have been suggested by anybody, that are really best. One of them is the bill that is now really under consideration, the Fowler bill, providing for credit currency; the other is the Aldrich bill, which merely provides for an emergency currency to be used in case of panic, being practically the same that we have now, except that it is more highly taxed, and is to be secured by other kinds of bonds. Have you at present any idea which you would care to express with regard to the advisability of either one of those plans?

Mr. BURGESS. Yes, sir. I have, rather by a process of exclusion, reached a conclusion as to how I should vote on any of these matters if they came up.

Mr. WALDO. I should like to hear that.

Mr. PRINCE. Before that, I would like to ask one question along the lines of Mr. Burgess's remarks. You and I have been here for some number of years in Congress; have we not, Mr. Burgess?

Mr. BURGESS. Yes, sir.

Mr. PRINCE. Do you know of any commission appointed by Congress whose findings ever received any attention after the commission reported to the House?

Mr. BURGESS. Oh, I think so.

Mr. PRINCE. What one?

Mr. BURGESS. I think the Industrial Commission has had a marked effect on legislation. I think its work appealed to the whole country. I think the report of the Waterways Commission will have a tremendous influence.

Mr. PRINCE. I have no doubt about that; but that commission has not reported.

Mr. BURGESS. I think the report of the Monterey Commission had a tremendous effect on the intelligent thought of the country; and if the subject could have been kept out of politics, I think it would likely have led to a practical settlement of the question long before it did. I believe that we have never had a commission of any respectability at all that has not been valuable. It may not have resulted in direct legislation in accord with its recommendations, and this may not. I do not say that it will. But I say that it is the best way in which you will be able to reach all sections and all sorts and conditions of men, and bring about a general approbation of any definite banking and currency scheme.

If you pass the Aldrich bill, do you know what will happen politically? The people of every section outside of the East, Republicans or Democrats, will jump on it as a Wall street scheme; because I find, in traveling out in the Middle West and the Northwest, that the Republican out in that section has precisely the same idea of the eastern Republican that the southern Democrat has of the eastern Democrat. He looks on him with suspicion from the start.

Mr. PUJO. We are not all that way, Mr. Burgess.

Mr. BURGESS. Perhaps not; but they are nearly all that way. That is my notion about it. I find, in making trips out in my part of the country, and coming in contact with citizens of representative thought and intelligence, that they are disposed to think the Republicans and Democrats very much alike, and that Wall street is in it for Wall street alone. I would not be surprised, myself, if there was a good deal of truth in that. That is rather natural. Not that I think that every man who has any property over there is corrupt and a scoundrel. I think that is demagogy and ridiculous. That is my opinion about it. But that will follow. I think that the main trouble about doing the wise thing, to which I am very favorably inclined (because I infinitely prefer the Fowler bill, in a general way, to any such bond-asset currency scheme as the Aldrich bill), is that you will never get that bill through the House unless you conduct a great campaign of education among the people.

Mr. HAYES. Let us begin it right here, Mr. Burgess.

Mr. BURGESS. Very well; I am lending all that there is in me toward it now. I am trying my best, and I will be glad to have your cooperation. But the people do not hear very much about what goes on in this committee room. Some of us would be very much more prominent at home if that which is done outside of the Congressional Record were as well known at home as that which is shown by the Congressional Record.

Mr. HAYES. Very true.

Mr. BURGESS. And that is the trouble about committee hearings. If it comes to a vote, I will state in a general way what I think—and I will qualify that; I will not agree to be bound in the future by anything I say along this line now. [Great laughter.] I am frank to say that I am uncertain; I am feeling my own way; and as I started to say a while ago, when I was interrupted by one of the gentlemen, so far as I have reached any conclusion it has been reached more by an exclusive process than it has been by any comprehensive, constructive study of systems as systems.

For instance, I shall not vote for any guarantee-fund scheme. That is out of it with me. I think that would be a great mistake. Some great men and some wise men and some good men are for it. I have no controversy with them.

The CHAIRMAN. You mean the guaranteeing of deposits?

Mr. BURGESS. Yes, sir; I think that would be a great business blunder.

The CHAIRMAN. Why?

Mr. BURGESS. I can give two or three reasons; but I will give one that is all-sufficient with me, and I received it in a letter from an old friend of mine whom I regard as one of these plain, old farmers, but one who has a "blue bucketful" of sense about anything. I wrote and asked him what he thought about this thing, and in my judg-

ment he laid it out in a breath. He said: "George, the Book says that 'the fear of the Lord is the beginning of wisdom.' In my judgment the fear of the depositor is the beginning of wisdom in banking." [Laughter.] That is my view.

The CHAIRMAN. Wait a minute, Mr. Burgess; let me ask you a question right there. Will you state how many, in your mind, out of the 5,000,000 depositors of the country (assuming that figure for this purpose) are intelligent depositors that know a bank statement when they see it; and if they do know a bank statement, how many know anything about the true inwardness of the bank?

Mr. BURGESS. I think there is a great deal in that, Mr. Chairman.

The CHAIRMAN. Well, how many? Make a guess, in your judgment, as to how many out of the 5,000,000 depositors, in the first place, know what a bank statement is; and how many of the 5,000,000 who have deposits in banks know anything about the bowels of the banks in which they are putting their deposits.

Mr. BURGESS. In a time of profound banking peace and universal confidence, when nobody is afraid, very few pay any attention to those things. But whenever the slightest cloud gathers on the horizon the knowledge of the depositors begins to increase very rapidly.

The CHAIRMAN. Does that do the depositor any good?

Mr. BURGESS. Yes.

The CHAIRMAN. After the bank fails?

Mr. BURGESS. No; not after it fails.

The CHAIRMAN. Does it do him any good to go to the bank after its business is crippled?

Mr. BURGESS. Yes; it does the banker an immense amount of good. Looked at conversely, it may be true that not a depositor really knows about the condition of his bank; but the bank people do not know how much he knows. And when the directors and the president and the cashier get together to scheme about what they will do with their deposits, they are more influenced by the fear of the depositor than they are by anything else on earth to manage their business conservatively. It operates as a tremendous check on them all the time; and this scheme would take all the check off. Then, in a period of inflation, God only knows what would happen to the country.

The CHAIRMAN. Suppose we were a board of directors of a bank, and suppose we had bought our insurance for the bank; do you mean to say that there is one man sitting at this table who would vote for an unsound loan or do a thing if he was insured that he would not have done before?

Mr. BURGESS. Yes, sir.

The CHAIRMAN. In making lawful profits?

Mr. BURGESS. Yes, sir; emphatically.

The CHAIRMAN. What?

Mr. BURGESS. I do mean to say that very thing.

The CHAIRMAN. Hold on. Suppose we all owned the bank; suppose that every share of the stock of this bank was represented, and there was a million dollars of it, say.

Mr. BURGESS. Yes.

The CHAIRMAN. Do you mean to say that there is one man sitting here that would vote to accept a note after the bank was insured

that he would not before, so as to cut down his profits, so as to ruin his reputation, so as to destroy his standing?

Mr. BURGESS. No, no. Now, wait a minute. If you will pardon me, if we all believe that to make a loan would destroy our credit and break down our business we would not make it, whether the deposits were guaranteed or not.

The CHAIRMAN. All right.

Mr. BURGESS. Now, wait a minute. If the deposits were guaranteed, and there was some question about the security, some question about whether the shares of stock that were invited to invest in a particular enterprise would earn a certain amount in dividends, the fear that the depositor might kick about the investment would make us scrutinize the investment much more closely. That is what I think about it.

The CHAIRMAN. Do you think the thought of the depositor would have any effect at all on that as compared with the judgment of the men who were voting their own money? In the last resort it is their capital and their funds, and they would be voting them away with a double assessment on top of them. Do you think they would do that?

Mr. BURGESS. I do. Yes, sir; I do. I do not think there is any doubt about it. Let me illustrate a case, without giving names.

A little bank of which I knew, with $50,000 capital, had $340,000 deposits belonging to farmers. There was offered to it for discount some eastern paper, at 8 per cent, amounting to about $150,000. One of the depositors who had only $15,000 in the bank out of this three hundred and forty odd thousand happened to hear of it; and he remarked to one of the directors: "If you loan those deposits on that eastern paper, suppose it should turn out that it could not be met, or got tied up in some way in the banks up in New York or Chicago, and these depositors should want their money, and I should want mine—then what are you going to do?" And the old German president of the bank said, "Vell, ve vill not loan them dot money." [Laughter.]

Now let me go along that line a little further.

The CHAIRMAN. Just a moment. Do you know that when the deposits and the notes are guaranteed, the fund is not responsible for a cent until the entire stock of the bank is wiped out, and a double amount put in?

Mr. BURGESS. Oh, yes; I understand that.

The CHAIRMAN. And the bank must absolutely fail and all the men be discredited?

Mr. BURGESS. Yes; I understand that.

The CHAIRMAN. And yet you say that the borrowers would sit down with the owners of the capital stock, and the banks would make a more unsound loan after they were insured than they would before, when it is their own money they put up to do it?

Mr. BURGESS. Yes, sir. I will put it this way——

Mr. POWERS. I would like to ask a question. Mr. Burgess, do I understand your position to be this: If the deposits were guaranteed, so that the bank did not fear a run upon it by the depositors, and so that the depositors would feel all right, is it your idea that some banks that are not managed conservatively—and there are some not managed conservatively—might underwrite stocks or make loans

where there was a prospect of large profits, believing that they could pull through, which they would not underwrite and would not make if they had the fear of the depositors behind them? Is that your position?

Mr. BURGESS. That is exactly my position.

Mr. POWERS. I am very much of the same opinion, to be frank with you. And in addition to that, is it really just and fair to make banks that do a conservative banking business responsible for the doings of banks that do not do a conservative banking business?

Mr. BURGESS. I think not.

Mr. POWERS. Hence I have not been able, myself—I agree with you—to see my way clear to favor the guaranteeing of deposits.

Mr. BURGESS. Before passing that—because I want to exclude some things and reach a conclusion and give the committee my opinion for whatever they think it is worth about the systems involved—I want to briefly state two other objections to the guarantee proposition. One is that it smacks of paternalism, not to say socialism, to "jack-pot," if you will permit the expression, the wise and the honest with the foolish and dishonest [laughter], and tax all to protect the depositor against the action of the foolish or dishonest.

The CHAIRMAN. It is just like life or fire insurance, is it not?

Mr. BURGESS. Yes, sir; but I am against the Government going into life or fire insurance.

The CHAIRMAN. But you do not understand that the Government is going into this fund under my bill?

Mr. BURGESS. I do, Mr. Chairman.

The CHAIRMAN. Why, not at all, not for one cent.

Mr. BURGESS. Oh, I understand the Government does not pay——

The CHAIRMAN. Not one cent.

Mr. BURGESS. I understand that; but the Government forces the system, and is responsible for it if it enacts it into legislation. It is no use to say that the Government does not pay anything. It does not affect the principle a particle whether we make an appropriation to force a thing to be done or whether we do it with money legislation. It is utterly immaterial; we commit ourselves to the governmental principle in either event——

The CHAIRMAN. I beg your pardon.

Mr. BURGESS (continuing). Of requiring the honest and the intelligent to pay proportionately to protect somebody against the acts of the dishonest and of the unintelligent. That is exactly what you are doing.

The CHAIRMAN. Hold on. If that were compulsory, you are right; but if it is voluntary, then you are all wrong.

Mr. BURGESS. Oh, well, that is a distinction without a difference. If you enact that sort of a law, you will force them into it. There is no difference between coercion and war, legislatively. It is the same thing. I would just as soon make them do it as to make the conditions so that they would have to do it. There is no use in making a bulwark of that sort of a thing. We will have to be responsible for the establishment of the principle; and it is a dangerous one. Why not do this? Why not provide a tax to recoup a bank for its lost loans?

The CHAIRMAN. Ah, that is a very different thing.

Mr. BURGESS. Why?

The CHAIRMAN. I will tell you why—because there intervenes between every loss the bank makes the double responsibility, all the stock, and the personal reputations of the men.

Mr. BURGESS. That is true; but they are both keyed upon the assumption that they will act equally honestly.

The CHAIRMAN. They are just as different as day and night.

Mr. BURGESS. That is all right; but they are both keyed upon the assumption that the banker will act equally intelligently and honestly whether the funds are guaranteed or not.

The CHAIRMAN. Oh, I beg your pardon; I beg your pardon. Just see the difference: Suppose we are a bank sitting here; suppose the law provided that if we made a loss the banks of the country could be assessed to make up that loss. In that event we would take any kind of a chance, because our stock and our personality would not be responsible for it. But in the other case the bank is wiped out, our reputations are gone, and the institution is absolutely eliminated before the fund is ever responsible for a loss.

Mr. BURGESS. Well, I think that is true.

The CHAIRMAN. Is not that true?

Mr. BURGESS. That is true, but——

Mr. WEEKS. Mr. Chairman, I take it that we would like to get Mr. Burgess's idea on this question.

The CHAIRMAN. Yes.

Mr. WEEKS. I would like to ask him one question in line with the question you asked him a little while ago about the 5,000,000 of depositors. The inference I drew from that question was the depositors did not make any note of the character of the bank in which they placed their deposits; that they did not know bank statements, and that they did not know much about it. I would like to ask Mr. Burgess if, in his opinion, where the depositor has a choice in banks, he does not believe that 4,999,000 of those 5,000,000 depositors do inquire about the bank, whether it is conservatively managed or not, and place their deposits where they believe they will be safely and wisely taken care of?

Mr. BURGESS. Oh, of course I do. If the gentleman will take my statement, put concretely, a little while ago, all of that is included in the idea that those depositors now act intelligently and honestly as against dishonesty and want of business wisdom. But the depositors then will be indifferent. That will put a premium on unbusinesslike methods, so to speak.

Mr. WEEKS. Absolutely.

Mr. BURGESS. And instead of putting the burden on the depositor, as it is now, just as it is on any other creditor, to determine whether it is wise to make a loan or not (which is the correct business principle, as I understand it), it will eliminate all of that, and it will be merely a question of business or favor as to where the fund is.

Mr. WALDO. It would be a question of interest, would it not? In that case it would be a question of which bank would pay the most interest.

Mr. BURGESS. Either interest in money or interest in some other way.

Mr. WALDO. Yes.

Mr. Burgess. Whereas I think it is better to have the honesty and business methods of a bank investigated by the depositor. But there is another reason, which is a practical one; it does not go to the principle involved, but I think it is sufficient to prevent the passage of such a bill now, even if it is wise, and that is this: You gentlemen are perhaps as familiar as I with the fact that the amount of bank capital and the amount of deposits in banks other than national banks is about equal to that capital and those deposits in national banks. We have no power over all the banks that are not national banks by this legislation. If you should enact a guarantee law the effect would be to provoke a tremendous crisis among the depositors in banks other than national banks, which involve half the total capital and credit of the country.

The Chairman. What do you mean by "crisis?"

Mr. Burgess. I mean this: Unless you believe that the passage of this sort of a law would make the boys go down in their old socks and their safe-deposit boxes and bring out their money and redeposit it, there is not any use in it. And assuming that that is true, as I think it is in large measure——

The Chairman. It would stop hoarding, in other words?

Mr. Burgess. Yes; I think that in a large measure that is true: that would be the temporary effect. But if that is true, then it would be equally true that these depositors in all the rest of the banks of the country—State banks, savings banks, private banks, private institutions—would at once hie away to get their deposits and put them where they could not lose unless they were bearing interest and secured by proper security. So that you would precipitate another tremendous trouble in the country.

The Chairman. Why?

Mr. Burgess. The answer that may be made by the distinguished gentleman is that State banks and savings banks could follow suit. Yes: but what is going to happen while they are following suit?

The Chairman. Nothing.

Mr. Burgess. I think there is something going to happen.

The Chairman. Nothing at all.

Mr. Burgess. Or else there is nothing in the matter.

The Chairman. Nothing at all. This thing could all be done before that ever became effective, and all the banks in the country could become unified; and then what would you have? You would know that every bank had the same amount of reserve, instead of having trust companies like the Knickerbocker in New York, with sixty millions of capital, paying 4 per cent on deposits, with no reserves (and what they did have bank notes), absolutely making a war on the national banks. The situation there was such that one man said, when the question was up, "Oh, let them go to hell;" and when the Trust Company of America appealed for help up there, in conference, the national-bank people said, "Let them go to hell; they have been warring on us for years and taking our deposits away from us because they paid 3 or 4 or 5 per cent interest on deposits." And so you have this contest going on in this country from one end of it to the other, without knowing anything about the bowels of your banks. Then, instead of having a national bank on one corner and a savings bank downstairs or upstairs or around the corner transferring securities, you would know something about your banks.

Mr. Burgess. I believe the chairman will agree with me (because I know, from reading after him, that he has been a close student) that no other country's banking system has any such feature as this.

The Chairman. Absolutely the same feature—psychologically the same feature.

Mr. Burgess. "Psychologically" is a big word.

The Chairman. That is all there is to it.

Mr. Burgess. Do you mean that the German system or the French system or the English system or the Canadian system has any guarantee of deposits?

The Chairman. It does not make any difference. You guarantee 5 per cent on your notes; and when you have the Bank of France, which will take any amount of bills and rediscount them, and the public mind at once upon the failure of a bank reverts to this great central bank, psychologically it has the effect of quieting these people.

Mr. Burgess. You will pardon me, Mr. Chairman, if I buck on that "psychological" proposition. [Laughter.]

The Chairman. That is all there is to it. There is where your confidence comes from.

Mr. Burgess. Now, in a general way, I will state what my view is; and that leads me to the exclusion of some of these other matters. I shall not vote for the issue of any emergency currency based upon bonds of the States, of the counties, or of the municipalities. [Applause.] I believe that will do infinite harm in the country. I believe it will put just where it ought not to be power to control the contraction and inflation of the currency of the country. I believe it will be unpopular; and if I were mean enough to be willing to hurt my country to benefit my party, I would not want a better thing than to have the Republican party pass the Aldrich bill. We should have the next House and the next Presidency, if they should do it.

I want a banking and currency system which will be controlled locally, by local demand, and will not be in the power of any man or set of men to control at their sweet will. Hence, in a general way, I would be in favor of a bill the details of which I have not thoroughly settled in my own mind; but I would be in favor of the application of the principle of the German system to our present national banking system in a workable way. I believe that can be easily done. I believe that we could require a gold reserve; we could require a limit to the issue of notes; we could adjust a rate of interest which would make it work automatically, just as it does in Germany; and I believe it would take but a few years of education and experience along that line to give us the finest financial banking and currency system that the world has ever seen, and I believe we are going to finally come to it. That is one of the purposes I have in trying to provoke a general and a wide discussion. People misunderstand these things. You go down home and say: "I am for an asset currency." They will say: "Ah, you are for rag money; you want to 'bust' the country; you want to issue money on anything and everything." They do not know what they are talking about. They do not know. And you are not going to get an adequate system, in my judgment, unless you get some universal intelligence behind Congress which controls its action in the last analysis; and you have too many men afraid to support it.

Mr. McKinney. Mr. Burgess, referring back to the main proposition in your bill for the appointment of a commission, that commission to report at the next session, do you not believe that that would bring about an almost indefinite delay in legislation along this line?

Mr. Burgess. No; I think not. I think we would get the right sort of legislation quicker in that way than we will get it in any other way.

Mr. McKinney. You would not hope, would you, for a unanimous report from that commission?

Mr. Burgess. I am rather inclined to think so. There might be some differences of detail; but I think perhaps they would be minor. I think the major points of the system would be the same.

Mr. McKinney. Would there not be a majority report and a minority report to be fought over?

Mr. Burgess. I do not think so.

Mr. McKinney. And another contention along that line.

Mr. Burgess. I do not think so.

Mr. McKinney. Would there not be divided opinion on the part of the commissioners from one section as against those from another?

Mr. Burgess. No; I do not think so. My experience is (and I think it is yours) that whenever you discuss questions separately and apart from partisan politics, and all of that, with men who really want to get at the truth, they nearly always finally agree. Take a number of lawyers who are on the same side of a case, and are discussing all the complicated facts and theories about it; it almost invariably follows that those intelligent men get together and agree about what is the best line of fight. It almost invariably follows.

I think that this sort of a process will keep this question out of partisan politics. Where men are responsible to their constituents for their action, of course differences will arise from their different feeling of environment, and their preconceived notions, and all that. But when they get to discussing it as business men, I think—now, this is only my opinion, but I think there can be but one result—that you will get a recommendation of some sort of a working system along the line that I hope to get and that I am in favor of. I do not believe that you would get from such commission a bond—secured, emergency—currency recommendation. I do not think so. I do not think you would get a central bank proposition from that sort of a commission. But I think you would find that they would, from a study of it, from talking with all the people and studying the whole question, evolve such a system as all of us would be willing to support.

The Chairman. You refer to the German bank; that is a central bank.

Mr. Burgess. I understand it is; and as the chairman will remember, " the German system made workable and applied to our existing national and banking system," was the way I put it. I am not in favor of a central bank of issue. And yet I am frank to say that the only reason I do not favor it is for the same reason that I do not favor some other things—because I am not willing to trust a partisan political power with the control of the volume of the currency of the country. That is the only real reason. If it were not for our bipartisan government, our intense political activity, I really believe that that would be the sensible thing. That would be the practical

solution. But it is impossible, under our partisan conditions, to do that. So the next best thing is to fix it so that that can not be done. directly or indirectly, and let the local situation control. That is my idea regarding it.

I thank you very much, gentlemen, for your careful attention.

Mr. McKinney. I want to ask you one other question: You recognize the fact that there has been an almost universal demand on the part of the people for some legislation making the currency more elastic?

Mr. Burgess. Yes, that is true—to have an elastic currency; so far as there has been any general demand, that is it.

Mr. McKinney. Now then, outside of extraordinary conditions, the shortage of money for the business of the country is usually found to exist during the crop-moving time.

Mr. Burgess. Yes; that is true—the cotton and wheat season.

Mr. McKinney. We are confronted with a national campaign, and it will be at its height during this crop-moving time next fall; and under your plan we would have to let that go on under the same old conditions, without trying to provide a remedy to be brought into effect and use at that time.

Mr. Burgess. That is true. Perhaps the fact that I live in the largest cotton State of the Union and one of the largest cotton districts, and still am willing to take that position, is pretty conclusive proof that, in my judgment, I think it is best, and that my people will stand for it. I do not believe we will get any emergency currency or otherwise that will be worth anything to us. If you give us a bond-secured currency we will never get any of it, because we do not carry State and county bonds down with us. We can not afford to. The rate of interest is too high. They drift to Wall street; and we will simply have to turn around and dig up some money when the crop-moving time comes.

Mr. Weeks. And are you familiar with the method of issuing clearing-house certificates?

Mr. Burgess. I think fairly so.

Mr. Weeks. Do you think that if the national banks of Texas had an organization making them a clearing-house district, and currency were issued based on the same general security, and by the same methods that are used in clearing-house certificates in time of panic, that would be a sane and sound method of issuing currency for temporary purposes?

Mr. Burgess. I doubt that, and I will tell you why: If the interests involved in Texas were confined to as few and as intelligent men as the big interests in New York are, that plan would very likely work. But when you have to deal with an infinite number of men, traders and depositors and borrowers in small amounts scattered over a large area of territory, if you get the slightest scare with one of them the whole lot of them come down on you, and you break down.

I thank you very much, Mr. Chairman.

STATEMENT OF HON. E. L. FULTON, REPRESENTATIVE FROM OKLAHOMA.

Mr. Fulton. Mr. Chairman, there are three bills which I introduced, and which have been referred to the committee, to which I

desire to call your attention. But inasmuch as I wish to get over to the House I will not take up any time in going into a discussion of them. I will simply call them to your attention, and ask that you give the same consideration to them that you will give to the other bills before you.

The CHAIRMAN. Will you tell us the numbers of the bills?

Mr. FULTON. The first one is 12655. That is the first I want to speak about. That is a guarantee-deposit bill. The other numbers are 12656 and 14403. No. 12655 is a guarantee-deposit bill; and I think, although I have not read the Fowler bill——

The CHAIRMAN. Just go on, if you are in a hurry, and tell us what you wish to say.

Mr. FULTON. That is what I was going to say—that No. 12655, as I understand it, is very similar to the measure which is under consideration by this committee; and I hope very much that a bill of that kind will be recommended by this committee. But, in case it is not, I trust that this bill 12656 will be, or something substantially like it. This bill, 12656, provides in substance that when any State has passed a law levying a tax upon the State banks for the purpose of creating a fund for the depositors in the State banks, the national banks in that State may take advantage of that law under such rules and regulations as the Comptroller of the Currency may prescribe.

I was led to introduce this bill more particularly because of the conditions which prevail in my own State. Oklahoma has been the first State to pass a guarantee-deposit bill. I have had the matter up with the Department, and, of course, they have not given us any opinion yet; but I am convinced from what I have heard from them that the opinion when they do give it will be to the effect that without legislation the national banks can not take advantage of that law. So far as I have been able to obtain information, no serious defect or serious happening has occurred by reason of this law as affecting national banks; but they are very fearful that it will. It therefore seemed to me that inasmuch as this guarantee-deposit proposition is new (although I firmly believe in it, and believe it is right), it is possible because of its newness that we may not be able to get it through Congress at this session; and that for that reason it might be advisable to pass such a measure as this, so as to give the national banks protection during the interim.

Mr. GILLESPIE. When does your Oklahoma law go into effect, Mr. Fulton? Some time in February?

Mr. FULTON. Some time in February, I think.

Mr. GILLESPIE. Of this year?

Mr. FULTON. Of this year; yes, sir. That is my recommendation; and I have had a great number of letters from the national banks in my district in regard to this matter. They are very serious in regard to it, and very fearful that it may result in some harm.

The CHAIRMAN. Have you heard anything about the session that is now progressing in Kansas?

Mr. FULTON. Yes; I have been informed that they have called a special session of the legislature for the purpose of passing something of this kind; but what has taken place there I know nothing of except what I have seen in the paper.

The CHAIRMAN. I simply wondered whether you had heard of it.

Mr. FULTON. No; I have not.

Mr. GILLESPIE. Is the legislature now in session in Kansas?

Mr. FULTON. Yes, sir; it is in session at this time; and Governor Haskell, of our State, addressed the legislature, I understand, upon this guarantee-deposit bill, just a few days ago.

The other bill, No. 14403, I will not take time to discusss. I would like to have done so; but of course, I realize that this committee is undoubtedly flooded with currency propositions. I do not get a mail in which some propositions are not sent to me. I know the same is true of the members of this committee, and for that reason I am afraid that possibly they may not consider all of them. In fact, you can not consider all of them; and that is the reason why I wanted to call your attention to this bill. I do not claim that it is a panacea for all evils. I do not claim to know all about the money question. I simply have my views, and I have had these same views for some time.

This bill, in substance, provides that all paper money that is now issued by the Government, including national-bank notes, shall be canceled and retired, and that all paper money shall be issued by the Government. Under the provisions of this bill that can be done without in any way affecting trade conditions. It also provides that this money, which I have named "national-bond notes"—although it could be named anything, as far as that is concerned—shall be legal tender for all debts, public and private; and the credit of the United States is pledged to the payment of that money. It is also redeemable in gold at the option of the holder of it, excepting that there is a provision that if at any time the Treasurer of the United States is convinced or has reason to believe that a raid is being made on the Treasury he may redeem it in silver, and there is provision for a reserve fund of a certain sum. I shall be pleased to have the committee give the bill consideration, as I have sufficient confidence in my own views (more than I have in my ability) to believe that if I could take the time to present it I could show at least some meritorious features in it.

Mr. BURTON. How much gold reserve do you provide?

Mr. FULTON. The total reserve is to be not less than eight hundred millions, 60 per cent of it in gold coin or bullion and 40 per cent in silver; and it is to be not less than 25 per cent of the total amount of these outstanding notes. We have in this country at this time, my recollection is, over $2,000,000,000 in paper money and currency.

Mr. BURTON. What is the limit on the amount of paper currency to be issued by the Government under your bill?

Mr. FULTON. There is no limit.

Mr. BURTON. And the gold reserve is to be the same, whatever the amount of the paper currency? There is no proportion between the paper currency and the metallic reserve?

Mr. FULTON. No; I did not fix that, excepting that it shall not be less than 25 per cent. I went on the theory that if you have a currency that is exactly as good as gold, nobody will want gold; that it might as well be tied up in the Treasury, for all the good it is doing; and we have in the Treasury to-day something like eight hundred millions in gold that is back of these gold certificates. There is not one person in a thousand that will go and present a gold certificate there to get gold. He does not want it. The only use they would have for gold would simply be as a protection, as a matter of insurance. But, as I state, my ideas are simply incorporated in this bill. I

do not claim that it is absolutely perfect, and I do not claim that it states exactly what I would like to have; and that is the reason why I will not further take up the time of the committee in discussing it. I should like to have explained it further, but I find I will have to go; and I thank the committee very much for their courtesy.

Mr. POWERS: This is the old greenback theory, with a gold reserve of at least 25 per cent behind it, is it not?

Mr. FULTON: Oh, no.

Mr. POWERS. That is the way I read section 5.

Mr. FULTON. You did not read all of it, then. If it does state that, it does not state what I intended to state.

Mr. POWERS. There is no limit on the issue, and it is issued by the Government.

Mr. FULTON. Yes, sir.

Mr. POWERS. And you would have a 25 per cent gold reserve. Why, is not that the old greenback theory—that it would be issued by the Government and the Government's credit would be back of it?

Mr. FULTON. The old greenback theory, if I understand it at all, was based on the idea of fiat money absolutely.

Mr. POWERS. While this has a 25 per cent reserve?

Mr. FULTON. And it is absolutely redeemable in gold.

Mr. POWERS. Yes; but you have only 25 per cent reserve to redeem it?

Mr. FULTON. Yes, sir.

Mr. POWERS. And you make it a legal tender for all debts, public and private?

Mr. FULTON. Yes, sir.

Mr. POWERS. Just as the greenback was to be?

Mr. FULTON. Yes, sir.

Mr. POWERS. And there is no limit to the issue, as in the case of the greenback?

Mr. FULTON. No, sir.

Mr. POWERS. I can see no particular distinction between that and the old greenback theory, except that 25 per cent reserve.

Mr. FULTON. The distinction is all the difference in the world—that the greenbacks were absolutely pure fiat money, were not based on anything, and had no reserve.

Mr. POWERS. I know; I grant you your 25 per cent gold reserve.

Mr. FULTON. And the gold reserve is just exactly on the same theory as the gold certificates. In other words, instead of keeping a twenty-dollar gold piece there for every twenty-dollar bill that is out, redeemable in gold, there is no more necessity for our keeping it than requiring a bank to keep it.

The CHAIRMAN. How would you put that money out of the Treasury of the United States in trade?

Mr. FULTON. By loaning it, the bill provides.

The CHAIRMAN. Loaning it? How can the Government loan its money?

Mr. FULTON. It has done it.

The CHAIRMAN. I know, in times of peace; but how would you have loaned $500,000,000 this last fall? The Government has no relation to the business of the country.

Mr. FULTON. Well, it does do it; and whether that is a good excuse *or not, I do not see* why it can not do it.

The CHAIRMAN. Who does it?

Mr. FULTON. To be sure, they do not literally loan it, but they deposit it around.

The CHAIRMAN. That simply comes in as a matter of collection; but you propose to have the United States Treasury, controlled by such men as we have to-day at the head of it, tell the people in Washington and the people down in Texas how much money they shall have.

Mr. FULTON. No.

The CHAIRMAN. Who is going to tell them?

Mr. FULTON. For this reason—if I am in the banking business, I am going to tell them. If I want to borrow $50,000, I go up to the Treasury of the United States, and I bring security as provided for in this bill, and I borrow $50,000.

The CHAIRMAN. What kind of security?

Mr. FULTON. The security provided for is Government bonds. It is provided that the securities shall consist of United States bonds, the bonds of any State, county, city, or municipality of the United States, or the bonds of the insular possessions of the United States, provided that no bonds of any municipality shall be accepted when the amount thereof is less than 40 per cent of the assessed valuation.

The CHAIRMAN. Then of course the bank will have to take its capital and buy these bonds?

Mr. FULTON. Yes, sir.

The CHAIRMAN. What margin do you give on the bonds? Suppose the bonds are all right; how much margin do you give?

Mr. FULTON. Sixty or 75 per cent; I have forgotten what it is.

The CHAIRMAN. Then you think, do you, that under your bill a bank would take a hundred thousand dollars and go down to Washington and get seventy-five instead of getting back a hundred?

Mr. FULTON. Well, I do not know about that proposition—whether it would or not.

Mr. GILLESPIE. Do you limit your loans to banks, Mr. Fulton?

Mr. FULTON. Yes, sir; I limit them to banks. I am of the opinion, however, that strictly speaking there is no reason why it should be done. Strictly speaking, I believe the loans should not be limited to banks. I believe that any person who had the right kind of security should be permitted to go down and borrow this money when he wants it.

The CHAIRMAN. Who is going to pass on it?

Mr. FULTON. The Treasurer.

The CHAIRMAN. Let us take the New York City 3½ per cent bonds. A few months ago they sold for 110; now you can buy them for 65.

Mr. FULTON. Yes.

The CHAIRMAN. We have now 16,000 State banks, trust companies, and national banks; and you are going to have one man here pass on those loans?

Mr. FULTON. Oh, not necessarily one man. He can employ men to work for him.

(After an informal discussion:)

Mr. HAYES. Your idea, then, is that you would make of the United States Treasury a vast central bank?

Mr. FULTON. It would have the appearance of a bank; yes, sir.

Mr. HAYES. Would it not have the functions of a bank?

Mr. FULTON. It would have the functions of a bank, save that it would not be a bank of deposit excepting of the Government funds. I am rather inclined to think, from the study I have given to the question, that we are never going to have the proper kind of a currency system here except through a Government bank. But I realize that it would be simply impossible to get such a bill as that through—just as impossible as it would be to get the Aldrich bill through.

The CHAIRMAN. Why, you have got it right in that bill, have you not?

Mr. FULTON. The Aldrich bill?

The CHAIRMAN. Yes; that is the Aldrich bill exactly, or something very near it.

Mr. FULTON. No; it is not the Aldrich bill; not on your life.

The CHAIRMAN. You are simply getting the Government to issue its notes on the bonds at the rate of 75 per cent of their market value.

Mr. FULTON. The Government issues all of the money instead of the banks issuing it.

The CHAIRMAN. That is what the Aldrich bill does, is it not?

Mr. FULTON. No; as I read it, the banks issue the money. That is, the Government issues it the same as it does now, but the banks take it, and then they issue it.

The CHAIRMAN. They do not issue it; the Government issues it, and they distribute it.

Mr. FULTON. They issue it the same as they issue it now.

The CHAIRMAN. Oh, no.

Mr. FULTON. That is the way I have read the bill.

Mr. CRAWFORD. The notes are signed by the treasurer and the cashier of the bank.

Mr. FULTON. It is just exactly the same as it is now; you can say that the Government issues it, but it is not issued, strictly speaking, until the bank officers sign it. That is what issues it. The Government does not issue it.

I am very sorry that my time is so short. If I had the time, I could make my bill understood, at least in the way that I understand it; but I simply have to go back to the House.

Mr. GILLESPIE. Did you see the bill introduced in the Senate by Senator Knox?

Mr. FULTON. No; I have not.

Mr. GILLESPIE. It is along the same lines with yours. Mr. Graham introduced it in the House, and Mr. Garland. According to my understanding, it is generally like yours.

Mr. FULTON. If the opinion of the committee should be, after thinking of this matter, that there is any merit at all in my bill, and they want to hear it discussed, I shall be more than pleased to discuss it when you can give me the time. It would take me at least half an hour to give my reasons for it.

Mr. MCMORRAN. Mr. Fulton, referring to your bill, No. 12655, as to guaranteeing deposits, have you satisfied yourself as to why the Government should stop at guaranteeing national bank deposits?

Mr. FULTON. Why should it stop?

Mr. MCMORRAN. Yes; Why should they stop at guaranteeing national bank deposits? Why should they not guarantee the railroad bonds of the country?

Mr. FULTON. There is all the difference in the world, in my opinion. I do not know that I can clearly state it; but a bank is a public institution in one sense of the word. It is connected, to-day, with the issuing of our money. It is a part of our financial system; and under our present laws the prosperity of our country practically depends upon the stability and the confidence which the people have in the banks. The confidence which the people have in railroad bonds does not cut a great deal of ice out in my country.

Mr. MCMORRAN. Does not the same principle apply to the railroad bonds of the country as to the deposits in national banks?

Mr. FULTON. I can not see it that way, sir.

Mr. MCMORRAN. Are not the railway bonds in very many instances held as investments by the widows and orphans of our country?

Mr. FULTON. Oh, they buy all sorts of things; but that is no reason why the Government should go into it. If the Government were controlling the railroads as it controls the banks, that might be a proposition worthy of consideration; but the Government has not anything at all to do with the railroads except in the way of regulating interstate commerce.

If there are any other questions, I will try to answer them. I do not want to force my views upon the committee at all. I feel that this committee is competent to pass upon the kind of measures it wants; and I am further aware that without doubt there is not a member of this committee who is not better posted on this question than I am. But at the same time, having these views, I am willing to give them if they are desired; and I thank you for your attention. I hope you will not overlook that one matter in regard to guaranteeing the deposits of national banks.

The CHAIRMAN. Are there any further comments to be made by any gentlemen to-day? If not, we will stand adjourned.

(The committee thereupon adjourned until to-morrow, Thursday, January 23, 1908, at 10.30 o'clock a. m.)

HEARING

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENT OF

MR. A. N. JORDAN

OF NEW YORK

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

JANUARY 27, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

(APP D)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, January 27, 1908.

The committee met at 10.45 o'clock a. m.

Present: Representatives McMorran (acting chairman), Waldo, Hayes, Weeks, McKinney, Lewis, Pujo, Gillespie, James, Crawford, and McHenry. (Representative Powers entered shortly after the beginning of the hearing and took the chair as acting chairman at the point indicated.)

Present also, A. N. Jordan, esq., of New York.

The committee thereupon resumed the consideration of the various measures before it dealing with financial matters.

STATEMENT OF A. N. JORDAN, ESQ., OF NEW YORK.

Mr. JORDAN. Mr. Chairman and gentlemen, I am not personally interested in this question, as I am not connected with any bank, but I have come here in the interests of the public, as a student of the problem. My studies date from 1902, when I took up the subject at the request of Mr. Conrad N. Jordan, who was a banker, had been formerly Treasurer of the United States, and was interested in finance and currency. I am appearing here at the request of Mr. Williams, the minority leader. I have had some correspondence with him, and he thought it worth while to bring the facts I had to the attention of the committee.

In the present discussion of asset currency some elements have been omitted, and I take the liberty of presenting a few facts and suggestions, in the belief that they may be of use to your committee in clearing up the matter. These facts are based on United States Government reports, letters, and returns from foreign banks, and upon newspaper clippings.

Bankers claim that our national bank notes do not contract or expand with the needs of business; that our currency is not elastic enough to meet the demands. The advocates of emergency currency claim that the business of the country is too elastic; that the cry for more currency is only heard when the country is overtrading and speculating excessively; and that promoters have undertaken more new enterprises than the efficiency or capacity of labor, material supplies, and capital warrant.

That is, these promoters are trying to do more than it is possible to do within the given time. They have gone beyond reasonable enterprise. I believe that if the ability to issue cheap credit exists during such a period, it will be used. Therefore, more enterprises will be undertaken and thus more capital absorbed, when the de-

mands for it are already too great. This will be caused by the fact that credit, ability to borrow capital, can be obtained so cheaply.

Remedies have been suggested. The supporters of the asset currency plan suggest that our national banks shall be allowed to issue notes secured by the general assets of the bank and thus be enabled to meet the demands of business.

The emergency theory is that as the country is undertaking more business than it can possibly perform, indicated by high rates of interest, increasing output of new securities and high prices for materials and scarcity of labor, we must stop expanding credit for new enterprises. We should pay off some of our indebtedness. Therefore more credit should be supplied only under such rates of interest as will be unprofitable to use this increased credit except as a means of preventing forced, and consequently disastrous, liquidation. The country would then be able to slow down gradually.

We have a notable modern example of a flexible currency. The Germans invented it. I might say, briefly, that the Bank of Germany is allowed to issue notes to the extent of three times the cash it has in its vaults. These notes are duty free up to a sum equal to the amount of cash plus a "contingent fund" of 472,829,000 marks. I use the term cash in the sense of coin and bullion. Beyond that limit they are allowed to issue notes subject to a payment of a 5 per cent tax. The bank has to keep a metallic reserve in gold, silver, and government notes of one-third against its own notes and other public liabilities, the reserve being required against the notes whether they are subject to a tax or not.

Has this been a success? From the first flexible issue it has never come back. It has gone on increasing. The duty-free limit has been extended until it now amounts to 472,829,000 marks. To-day the Germans are demanding a further increase and are issuing notes in denominations below 100 marks. In their original system they were allowed to issue notes of 1,000, 500, and 100 marks, but they find that by issuing them in lower denominations, 50 and 20 marks, the notes will stay out longer in circulation. This system landed the German nation in the mire in 1901, and has drawn it back again to-day.

Germany had a big industrial depression in 1901, and to-day she is entering upon another. I quote from the financial supplement of the New York Evening Post, Saturday, January 25, 1908:

> In Germany, however, a setback in trade is unmistakably under way, especially in the iron and steel industry.

Does anyone suppose that because a currency is issued only under a 5 per cent penalty, or less, that the man who thinks he is making 20 per cent (on paper) will be restrained by a trifling thing like that? In other words, if a bank has only to pay a penalty of a 5 per cent tax on its circulation, and if it is getting 5 per cent or more on the rest of its credit, it is not going to be restrained from issuing this new currency on account of the tax of 5 per cent.

Bear in mind that every borrower from a bank is paying the rate the borrower from the 5 per cent fund pays, and that the increased rate becomes necessarily the universal rate, as the distinction as to who is the borrower of the specific fund becomes impossible. The returns of the bank will witness how often the note issue has fallen within the normal limit. This system has cost the German people millions of dollars and will continue to cost until it is done away

with. If the Germans had adopted the English or French systems, and when excessive speculation and overtrading began had run up against a 12 per cent rate for money instead of issuing flexible currency, they would have saved a great deal of money that has been lost in unsuccessful ventures undertaken during the periods of inflation.

As proof of this I would like to read an extract from United States Government report as to the industrial depression which took place in Germany during 1900 and 1901.

This is from the consulate-general at Berlin. Frank H. Mason, and is dated October, 1901, volume 2, Commercial Relations of the United States, 1901. At page 251 it states:

Although the year 1900 will be remembered as the one during which Germany passed the culminating point of a period of phenomenal development, and entered upon a period of reaction and depression, the duration of which can not yet be foretold, no trace of decline was apparent in the foreign commerce of the year.

And at page 259 of the same report:

It is generally conceded that the climax, or high tide of German prosperity, was reached during the spring months of 1900. * * * The clouds, which had been gathering for several months, burst, and rapidly overspread the sky. During the summer business became more and more stagnant and depressed, and the autumn failed to bring any sign of revival. Capitalists became timid and apprehensive; factories and industrial establishments of most kinds began to discharge employees and to shorten the working hours of those who were retained; industrial stocks declined in value out of all proportion to the falling off of business, and by the end of November Germany was facing an economic crisis the extent and duration of which could be but dimly perceived. By the middle of January fifteen branches of industry in Berlin, which employed in normal times 83,319 operatives, had discharged 22,629 men for want of work. Even the great steel works of Frederick Krupp, at Essen, turned adrift several thousand of their employees, and the Berlin Tageblatt estimated that one-fourth of all the working people of Germany were idle or insufficiently employed. Spring came, the war in China was over, but the hoped-for revival did not come. The depression continued until on the 25th of June last occurred the failure of the Leipziger Bank, one of the first and worst of a long series of failures and suspensions of moneyed institutions which had been the mainstay and support of thousands of manufacturing, mining, building, and inventive enterprises that had helped to make the prosperity of Germany. * * * Trade, mining, and manufacture got into the hands of powerful syndicates, which were very effective so long as everything was prosperous and on the up-grade, but, as is now claimed, behaved badly by keeping up prices of coal, coke, and other staple necessities when the reaction had come and everyone needed cheap fuel and raw materials to enable them to weather the storm. Moreover, many of the selling syndicates maintained their home prices unchanged, while pouring their surplus products into foreign markets at whatever prices they could get. As a result of all this, there is a general complaint that despite dull times, low wages, and growing scarcity of employment, the cost of home-grown products and German-made goods has remained practically unchanged.

This is from Dresden, quoting from the same volume, reported by the consul there:

The anticipation of a continued era of prosperity, as expressed in the last annual report of the Dresden Chamber of Commerce, has not been realized, and at present this portion of Saxony is suffering from depression and dull times in its commercial and manufacturing interests. The earlier months of the present year seemed to justify optimistic predictions, but later an extremely stringent money market prevailed, followed by failures of manufacturing establishments and banks, from which it will take the Kingdom several years to recover.

These conditions were brought about by overspeculation, resulting from five years of prosperity, and by the building of many new manufacturing plants

and increasing the facilities of others already in operation, which caused a production greatly in excess of the demand.

This is from Leipzig, in regard to the failure of the Leipziger Bank, of which I have spoken.

The largest failure this year—in fact, one of the largest ever known—was that of the Leipziger Bank, an institution which was regarded by the general public as one of the best and safest of its kind in Germany. This bank closed its doors June 25, 1901. The directors, the recipients of large salaries, were among the most prominent men in this section. Since the bank closed its doors two of the seven directors, the manager and his assistant, have been arrested and are now in jail, one is out on bail, one has committed suicide, and the other three are under police supervision pending the hearing of the case.

Mr. LEWIS. I would suggest that instead of reading so much history that you just give us your views in as concentrated form as possible.

Mr. JORDAN. These are merely extracts from the report of the United States consul at Berlin in regard to the depression that took place, and I desire to present them as showing the experiences of the German nation under flexible currency. Experience is the only true guide of a banker. The returns of the Bank of Germany at that time showed that from 1890 to 1900 its flexible currency issue was constantly expanding; and that, although it fluctuated from time to time, the yearly average always showed a greater increase in percentage in the notes than in the reserve held against the notes. For instance, in 1888, the metal held by the bank against notes amounted to 96 per cent of the notes and——

Mr. GILLESPIE. That was in 1888?

Mr. JORDAN. Yes. In 1898 and 1899 that average dropped down to 72 per cent. That was at the time this period of overtrading and excessive speculation was taking place, and it had been brought about by this very increase in the expansion of the note issues of the bank. The German people had been led into it by being afforded cheap credits. Instead of running up against a high-money rate, they ran up against the issue of flexible currency, which led them into this very overtrading and speculation, because it produced fictitious ease.

Mr. WALDO. Do I understand that you call it overissue and flexible currency where the people kept 96 per cent of gold against it?

Mr. JORDAN. At the time the bank kept 96 per cent, in 1888; it was hardly a flexible issue. It did not begin to expand until after that. Then the reserve dropped down to 71 per cent.

Mr. WALDO. Is it not the opinion of the authorities generally that 25 per cent of gold is ample for the redemption of all notes in any currency?

Mr. JORDAN. It makes the currency safe as far as safety goes, provided the other 75 per cent is issued against available resources. It has a bad economic effect on the country. It is unsound if it reduces the rate of interest during a period of speculative growth.

Mr. WALDO. Do you imagine that it would make a great deal of difference whether you had 96 per cent of gold in circulation or whether you had 100 per cent in the Treasury?

Mr. JORDAN. Yes, sir; because in the one case you have got to have capital if you are issuing these notes against the gold. In the other case it does not require any creation of capital at all. It is simply a credit note that is issued, and therefore you are allowing this note

to be issued, which is a means of borrowing capital. If you can issue the note under a low rate there is not much hindrance to borrowing capital.

Mr. WALDO. Is it then your idea that the credits of this country, now amounting to about fifteen billions, ought not to be used, and that the only money that ought to be used here is about seven hundred millions of gold?

Mr. JORDAN. No, sir. My idea is that the credit of this country is furnished principally by bank-deposit credits. They are largely the exchange medium of the country.

Mr. WALDO. I do not mean as to the actual fact, but for safe financiering.

Mr. JORDAN. No, sir; not gold only, but there should be a limit to the amount of currency issued other than against gold.

Mr. WALDO. Is it your idea that no other currency ought to be in existence than that which represents actual gold on deposit in banks or in the United States Treasury?

Mr. JORDAN. To the extent that it would check speculation, yes. I believe that the only currency that should be issued should be against gold, or against United States Government bonds; that sufficient credit is obtained from deposits to carry on the business of the country, and that our circulation, which goes into the hands of the common people, ought to be secured absolutely; that we are rich and strong enough to furnish a circulation which contains no element of insecurity.

If the standard of value, gold, is increasing more rapidly than the demand for it in circulation, or as reserves of bank credits issued against value, the excess gold will seek a market and thus cause a depreciation in the purchasing power of gold, or what is commonly called a rise in prices. This rise in prices will stimulate speculation, or the holding of commodities and securities for a sale at advancing prices rather than a distribution of them to consumers or investors. The increase in prices will absorb more gold in circulation under a gold currency and hence check the effect of the overproduction of gold. The inflation will then be held within bounds. A gold currency system tends to keep speculation down and therefore to make the purchasing power of our gold dollar more stable.

Mr. GILLESPIE. What was their reserve when the panic came in Germany?

Mr. JORDAN. When the panic came, their reserve had dropped to 72 per cent.

Mr. GILLESPIE. Was that in 1901?

Mr. JORDAN. That was in 1900. The conditions causing the panic came about in 1900. The panic actually came in 1901, but the Germans had been led into that panic by their flexible issue, because it produced a cheap money rate—a cheap credit rate. To-day the returns of the bank show that it had been constantly expanding for two or three years, and Germany is again in a period of depression. She has just entered it, being led into overspeculation by this very flexible currency system, because it has allowed low rates of interest. I contend that you can not check speculation except by high rates.

Mr. GILLESPIE. You do not contend that the Germany currency system or financial system is not sound, do you?

Mr. JORDAN. No, sir; not for a moment, if you mean in the sense of not being safe.

Mr. GILLESPIE. None of their notes have ever gone to discount.

Mr. JORDAN. No, sir.

Mr. GILLESPIE. But your contention is that under that system we can not prevent this tendency to overtrading, etc. Is that it?

Mr. JORDAN. My contention is that under this system you tend to bring about and prolong these periods of overspeculation; that it is not unsound currency, that the notes do not go to discount, but that you lead the country to overspeculation.

Mr. WEEKS. Is it not true that Germany has been developing commercially more than any country in the world?

Mr. JORDAN. It is true that she has developed very rapidly since 1890, but that is the very thing that landed her in "the slough of despond" in 1901 and from which she has not been able to crawl out, nor will not until her currency system is done away with. The increasing output of gold did not commence until about 1892.

Mr. WEEKS. It is inevitable, is it not, when a country is developing, that it shall have periods of depression and recession?

Mr. JORDAN. It is, if you allow it to go too fast. A distinction between the German flexible system and the English system is that in Egland when you go too fast you run up against a high rate for money. If you run up against a low rate you would merely continue the speculation.

Mr. WALDO. Do you know what the rate for money in Germany is to-day?

Mr. JORDAN. I do not know it now, but the rate has been reduced since the 1st of January from 7½ per cent.

Mr. WALDO. I mean at the time when you say the rate was too low.

Mr. JORDAN. The average rate for bills of exchange—well, the highest rate was only 5 per cent from 1888 down to even 1905, for which I have the data here.

Mr. PUJO. Your contention is that it increases speculation by flexibility and elasticity of currency, resulting in inflation?

Mr. JORDAN. Yes.

Mr. PUJO. Is it not a fact that the rate in France for the last forty years has been 4 per cent?

Mr. JORDAN. I think so as regards the bank rate; but as regards the market rate I do not think it is true. The rates fluctuate. I noticed it was 9 per cent at one time last fall. They do not have a flexible system, in my opinion.

Mr. PUJO. But I am speaking of the rate of the Bank of France.

Mr. JORDAN. It varies from 3 per cent to 4 per cent.

Mr. PUJO. Three per cent and a fraction.

Mr. JORDAN. The Bank of France does this: If it sees speculation breaking out, it will raise the discount rates and try to hold down that speculation. It will keep overspeculation in check, if possible. It keeps a reserve of probably 75 per cent to 85 per cent against its notes and other public liabilities.

Mr. PUJO. What system do you consider the safe system, then?

Mr. JORDAN. I consider that our United States Government bond-secured currency as at present issued and currency issued against gold, dollar for dollar, is the safest and most economic system for us.

Mr. PUJO. At this time do you recall what the circulation is that is authorized in the United States?

Mr. JORDAN. An amount equal to the capital of our national banks, or about $900,000,000.

Mr. PUJO. We could take out $900,000,000 of this circulation?

Mr. JORDAN. Yes.

Mr. PUJO. We have in circulation now $600,000,000 of national-bank currency; $900,000,000 could be taken out. Senator Aldrich introduced a bill raising the authorized issue $250,000,000 more. It is evident that one-third of the circulation authorized by law has not been taken out by national banks. It has been argued by some banks that the reason they will not take out the circulation is because they can not retire it when they have no need for it. If we would remove the limitation of $9,000,000 a month as regards retirement, would not that encourage the bank to take out $300,000,000, and would not that be the only legislation necessary if the currency is safely secured by Government bonds?

Mr. JORDAN. I think the removal of the $9,000,000 retirement limit is very advisable, because the banks will not take out circulation when it is needed if they can not retire it when the demand for it is over.

Mr. PUJO. I call your attention to the Bank of North America, which, I notice in the New York World of the 27th instant, has just gone into the hands of a receiver. Its capital is $2,000,000.

Mr. JORDAN. Yes.

Mr. PUJO. Its circulation taken out is only $50,000. Does not that argue in support of the necessity of removing the limitation of $9,000,000?

Mr. JORDAN. I think it does to the extent that banks will not take out circulation if they can not retire it.

Mr. WEEKS. Is it not true that there has been practically a run on the National Bank of North America, of New York, for the last three months, and that they have been struggling to keep their heads above water, and that they have outstanding $4,000,000 of certificates?

Mr. JORDAN. I do not know the exact situation, but I understand that they have been under suspicion for some time and have been held over.

Mr. WEEKS. If you were a national-bank man, would you be willing to buy 2 per cent bonds at the rate of 107 or 109 to take out circulation against them, considering the profit that can be made on circulation at present?

Mr. JORDAN. That would depend on interest rates and to the extent that it would furnish convenience to my depositors.

Mr. WEEKS. Yes; but it might be a glut on your hands.

Mr. JORDAN. If there were no demand for notes it would not pay at 107 to 109. The very fact that you can issue currency and convert deposits into currency would bring you deposits as you serve the convenience of your customers.

Mr. WEEKS. Suppose you bought bonds and paid 108 for them and something happened, as it did last fall, and they dropped to 102 and you wanted to retire the currency? Do you think you are justified in risking that 6 per cent?

Mr. JORDAN. I think that is the risk of your business and you would be more than repaid by being of service to your depositors.

Mr. WEEKS. If you were in a responsible position, you would hesitate about taking that risk.

Mr. JORDAN. Banks speculate in bonds and the prices for bonds go up artificially; but it seems to me that it would be better for them to speculate in United States Gover ment bonds and take that risk, rather than to take the risk of speculating in some other security.

Mr. WEEKS. I agree with you there.

Mr. MCHENRY. Suppose you have a bank with $500,000 capital. You can have $200,000 United States bonds, $200,000 for currency outstanding. Now, suppose you want to increase the ratio to $500,000. What are you going to buy those Government bonds with? In what way does it give you more currency?

Mr. JORDAN. The only way is if you have credit power to purchase them with, you can extend your credit and purchase those bonds with it, or you may borrow them. You have that advantage. If you can not do so and have to pay out lawful money for them, you would lose. It is simply a question of whether you have sufficient credit to buy those bonds, or otherwise you would have to call loans.

Mr. MCHENRY. That is the reason banks do not take out the money, simply because they have to put up good money to get this currency.

Mr. JORDAN. That would prevent inflation of the currency. There is another flexible currency system very much like Germany's, and I wish to mention that system. This is an extract from a short article which appeared in the Journal of Commerce and Commercial Bulletin last year:

BERLIN, *July 27, 1907.*

A correspondent of the Frankfurter Zeitung, writing from Tokyo, gives details of the speculative establishment of new industries since the close of the war with Russia. From July, 1905, to the end of 1906 there were organized 3,336 new companies, with an aggregate capital of $302,000,000, while 580 old companies added $123,000,000 to their capital. This movement went on with increased intensity for the first five months of this year, during which 1,169 new companies, having a total capital of $112,000,000, were registered, while 249 old companies absorbed $63,000,000 of new capital.

This excessive activity in establishing new companies has been accompanied by a wave of enormous speculation, all classes of the people, even down to the poorest, have been engaged in buying stocks upon margin. Instead of the hoped-for advance in prices, however, a sharp fall has latterly occurred, and a feeling of distrust among the people has become so marked that various runs on banks have occurred. Some thirteen banks were forced to suspend payment, either temporarily or permanently.

That simply goes to show that under those systems— - -

Mr. GILLESPIE. What is that system?

Mr. JORDAN. I refer to the Japanese system. The flexible currency system there is modeled after that of Germany. After the Bank of Japan issues notes up to the limit of cash it is allowed to issue 120,000,000 yen, or about $50,000,000, and then is permitted to further issue under such tax as is placed by the minister of finance of Japan. The tax must be 5 per cent or more. Under both systems I have shown that these periods of overspeculation and excessive development of new enterprises have taken place.

Mr. WALDO. Do you know what issue per capita was made at that time in Japan—at the time of greatest expansion?

Mr. JORDAN. No, sir. The report of the bank does not show. I have written to Japan for further information, but have received no answer as yet.

Mr. WALDO. Do you know what the issue per capita was in Germany at the time you say this overspeculation came about?

Mr. JORDAN. No, sir. I do not know that, but I do not think that the per capita amount in circulation has as much to do with its use in business as its rapidity of circulation.

Mr. GILLESPIE. You have the outstanding note issue, have you not?

Mr. JORDAN. Yes, sir; I have.

Mr. WALDO. What is that?

Mr. JORDAN. The average outstanding note issue for the year 1902 was 1,229,623,000.

Mr. GILLESPIE. Marks?

Mr. JORDAN. That was marks. The issues have never been as large as those of the 1st of January, 1908. I have a letter from the bank showing the issue to have been on the 1st of October, 1907, 1,617,034,000 marks. It shows a constant increase. There may be fluctuations from month to month, but during these periods of speculation this increase is going on. It is really a question of more all the time.

Mr. WALDO. Is not that, perhaps, in ratio with the increase of wealth in that country?

Mr. JORDAN. If it were in ratio with the increase of real wealth there would not be any trouble from this overspeculation. I think it is more in ratio with the increase in speculation.

Mr. WALDO. Have you any memorandum there as to what the actual increase of wealth was during that time?

Mr. JORDAN. No, sir; I have not. I have simply a memorandum that the country is now in a period of depression, which indicates that its wealth could not have increased soundly. It was more an anticipation of actual value.

Mr. WEEKS. Have you any information as to the relative volume of business in the last two years you are referring to?

Mr. JORDAN. No; I have nothing in regard to that. It was very active, as indicated by imports and exports. I am able to show only the expansion of notes.

Mr. WEEKS. Do you imagine the currency output has increased any more rapidly than the volume of business has?

Mr. JORDAN. It has not increased any more rapidly than business, but it has increased more rapidly than the sound growth of the country, otherwise there would not have been this period of depression.

Mr. WALDO. What is your opinion as to the gradual recurrent periods of depression in all countries where there is great increase in manufactures and business of various kinds, under any system of currency?

Mr. JORDAN. I believe that under certain conditions these things always arise, that a period of cheap money tends to increase business activity, and the increased business activity finally leads to overspeculation.

Mr. WEEKS. Will not that always be so without regard to the currency?

Mr. JORDAN. This will always take place after a speculative consumption of capital, but in some countries you would have it to a greater extent than in others, owing to the currency system.

Mr. GILLESPIE. Is it not true that Japan first started out when she inaugurated a banking system with a system modeled on our present national banking system and afterwards changed to the German system?

Mr. JORDAN. She did. I understand that Congressman Fowler remarked that Japan had a bond-secured currency and that she abandoned it and took up the flexible currency system because the former had not worked well there. Under this very flexible currency system she experienced a panic, runs on banks, etc.

Mr. HAYES. How long ago was this panic that you speak of in Japan?

Mr. JORDAN. During the spring of 1907.

Mr. WEEKS. How many banks have they there?

Mr. JORDAN. I can not tell you the number of banks there now. In the last information I got from Japan there is an outline of the banking system, but it does not show the number of banks.

Mr. PUJO. Have you studied the provisions of what is known as the Aldrich bill?

Mr. JORDAN. Yes.

Mr. PUJO. What are your views on that measure?

Mr. JORDAN. I am very much opposed to it.

Mr. PUJO. I mean as to the character of the currency and the issue under it.

Mr. JORDAN. Even as a believer in an emergency currency I am opposed to it, and my opposition is on account of allowing railroad bonds to be used as a basis of circulation.

Mr. PUJO. Assuming that that is to be eliminated and that it will be confined to United States Government bonds solely, to protect the issue under it, what are your comments on it?

Mr. JORDAN. I think it would be very good, except that I think that the currency could be rearranged so as to be more easily issued and that it should be prevented from being absorbed by speculation by increasing the tax to 1½ per cent per annum.

Mr. PUJO. As to matters of detail, yes. It is only deficient in your judgment as to matters of detail if the issue is protected by United States bonds?

Mr. JORDAN. Yes, and a tax to prevent its absorption by speculation.

Mr. PUJO. You would not include State or municipal bonds?

Mr. JORDAN. No, sir; because I think that would lead to dealings in order to retain political power. The objection there would be that an Administration could grant this privilege for the purpose of obtaining political support. I think it is too dangerous.

Mr. WEEKS. In what respect would it be different from the present system if you limit the issue to United States bonds?

Mr. JORDAN. It would not be at all different, but I would suggest that it be changed so as to make it more serviceable and prevent its use in speculating in bonds.

Mr. WEEKS. It would be the same thing?

Mr. JORDAN. As it stands, yes.

Mr. MCKINNEY. What recommendation have you to make in connection with the present system?

Mr. JORDAN. A further extension of our United States bond-secured currency under such terms and conditions as will provide

an emergency circulation only and facilitate the issue of notes in small denominations. It is the best currency system ever used by this or any other country. If the people desire the cheapest and safest form of currency in daily use yet known to any commercial nation to be perpetuated for their benefit, they will refuse to allow the destruction of our present United States bond-secured national-bank notes. There is no reserve required against this currency. It has proven absolutely safe, and has secured the confidence of the public. Every bit of capital given for the bonds was used.

Mr. McKinney. We have that, have we not?

Mr. Jordan. We have.

Mr. McKinney. What I asked you is, what do you propose in addition to the system we have or in amendment of it?

Mr. Jordan. Due to the fault that we can not get small notes promptly when we want them under our present system, we should have an amendment so that a portion of our notes could be issued as one note, instead of being issued as 6,500 different notes, or, in case of the adoption of asset currency, even more. If such a provision existed, banks could perform all the banking functions of the year with the amount of notes now in existence, because a large amount of currency is hoarded in these small notes, owing to the fact banks can not get these small denominations when they want them. In order to supply the possible needs of their customers, banks hold more small notes than they need in anticipation of a demand that does not come. If the banks had an unlimited fund of small notes that they could tap at any moment, they would not hoard circulation as they now do.

My proposition would be that State and national banks should both be allowed to obtain notes from a special fund of notes already prepared and distributed among the subtreasuries throughout the country. The banks would have to deposit gold coin of full value or United States bonds to the par of the notes obtained, and pay a charge of one-eighth of 1 per cent each time they took out these notes, which could only be issued and reissued during September, October, November, and December.

The issue upon United States bonds should be limited to $100,-000,000, and banks should pay a tax of 1½ per cent per annum upon the bonds while on deposit as security for these notes.

The issue against gold should be unlimited, and the charge of one-eighth of 1 per cent would prevent undue use, also their competition with our silver certificates.

If the Comptroller of the Currency were permitted to have notes printed different in form from any now in use, they could easily be assorted and returned for redemption. I do not think their difference in color and form would be a danger signal, as they would be in constant circulation as against gold. They would merely indicate the inability to obtain small denominations in our other forms of currency.

The notes, being placed in the subtreasuries throughout the country, could be had instantly, and then banks would not have to wait forty-five days to have their circulation printed, or about ninety days, really, in order to get a properly seasoned note.

By allowing the issue of these notes against United States Government bonds under a tax of 1½ per cent on the bonds you would

prevent banks using this privilege to speculate in the bonds and would reserve the notes for an emergency issue. It would not be used in ordinary times except against gold.

Mr. WEEKS. Are you aware of the fact that in the city of Pittsburg alone they issued $45,000,000 of clearing-house checks——

Mr. JORDAN. I understand they issued a very large amount.

Mr. WEEKS. To carry on their local business during the panic?

Mr. JORDAN. Yes; but under this system I do not think the panic would have taken place. The very fact that the banks would have the right to obtain these notes and could obtain them instantly, rather than have to wait two or three months for them, would prevent a general panic.

As reason for this conclusion I desire to quote from a letter dated December 16, 1907, received from the Bank of England:

> I may, however, point out that only on one occasion have the bank actually issued notes against securities beyond the statutory limit. It is true that in each of the three years you mention (1847, 1857, and 1866) the Government authorized them to make such issues, but only in 1857 was this permission used.
>
> I may add that on the first occasion of their receiving such authority the bank raised their rate of discount from 6 per cent to 8 per cent; on the second occasion they allowed the rate to remain at 10 per cent, the point at which it already stood, and on the third they raised it from 8 per cent to 9 per cent.

Mr. MCKINNEY. Did I understand you to say that you favored State banks issuing circulating notes secured by United States bonds?

Mr. JORDAN. Yes. Commercial banks carrying the working balances of the community are based on the same principles, whether organized under State or national law. Both State and national banks have to face the same emergency. The circulation would be safe, as it would be fully secured by gold or United States bonds, and be a first lien.

Mr. GILLESPIE. You are talking about the $100,000,000 of currency now?

Mr. JORDAN. Yes, sir; as regards the issue of notes against United States Government bonds. The limit would not apply to issues against gold.

Mr. GILLESPIE. You are not speaking about the 1½ tax and the one-eighth charge as applied to the general issue of banks?

Mr. JORDAN. No, sir; not to the present national-bank notes, only regarding the proposed emergency issue.

Mr. GILLESPIE. The present system you would change in some way.

Mr. JORDAN. Yes; I would suggest an additional currency privilege for use in emergency only; that is, to assist liquidation only. It would be a supplementary currency. It does not change the security for our bank circulation except by adding gold.

Mr. WALDO. How would it have aided us in this trouble when banks were entitled to take out between two and three hundred millions of additional currency, which they did not do at the time and which they have not done up to date, although they have increased it slightly?

Mr. JORDAN. Our national banks increased their circulation about $100,000,000 in the past year. The proposed issue would have been immediately available and could have been instantly retired. The additional circulation against bonds, being taxed 1½ per cent, would

not have been issued until the emergency came, as it would be unprofitable to issue except as a means of preventing forced liquidation.

Mr. WALDO. All that would be necessary to do then, to-day, would be to remove the restriction on the retirement limit of currency, would it not?

Mr. JORDAN. No. It would still take too long to get your notes. They must be instantly available. Besides, the privilege would have been exhausted before the emergency came if it were not subject to a tax sufficient to render its issue unprofitable under ordinary rates.

Mr. WALDO. In taking it out it requires too much time; but you can retire it at any moment to-day up to nine millions a month, and if we remove the restriction on the retirement you can withdraw your whole currency to-morrow, if you want to.

Mr. JORDAN. That would depend. There would be no true retirement about it if the lawful money deposited in the Treasury by the banks in order to withdraw their circulation were to be redeposited by the Government in the banks. The deposit of lawful money does not withdraw the bank notes from circulation; it merely retires an equivalent amount of currency.

Mr. WALDO. That would answer your objection on the one side. It would be merely a repeal of the law that limits the retirement of nine millions a month.

Mr. JORDAN. Not altogether.

Mr. WALDO. Would not that reach it on the one side?

Mr. JORDAN. Yes, on the one side.

Mr. WALDO. All that is necessary on the other side is to change the machinery of issue.

Mr. JORDAN. To change the machinery of issue——

Mr. HAYES. There could be a direction in the law to the Comptroller of the Currency to have that currency ready.

Mr. JORDAN. How is the bank to know when it will need it? The proposed issue would be circulated as the note of one bank. Any bank, State or national, could instantly obtain the notes. Again, its simplicity would aid in redemption.

(At this point Mr. Powers took the chair as acting chairman.)

The ACTING CHAIRMAN. You mean to reduce it to a form of currency?

Mr. JORDAN. Yes, sir; it would be a supplementary currency issued as a universal note.

The ACTING CHAIRMAN. In addition to what we have now?

Mr. JORDAN. Exactly.

The ACTING CHAIRMAN. If you have to put up bonds to the full amount——

Mr. WEEKS. Where are you going to get the lawful reserve to buy it?

Mr. JORDAN. If you have not the bonds or sufficient credit power you could not take out the circulation. Lawful reserve money could only be obtained by the banks paying out this circulation and substituting it in the hands of the public for lawful money. As regards a redemption fund, it would take away no money for reserves, because the redemption fund may be counted in reserves.

The ACTING CHAIRMAN. Do you think that would render the system elastic?

Mr. JORDAN. I should say so, as it would provide against extremes of either need of or issue of currency.

The ACTING CHAIRMAN. What is to retire them?

Mr. JORDAN. The tax of $1\frac{1}{2}$ per cent per annum.

The ACTING CHAIRMAN. How would you retire them on account of the tax?

Mr. JORDAN. The deposit of gold coin with the United States Government would retire an equivalent amount from circulation.

The ACTING CHAIRMAN. Let me ask you this: Do you believe that the tax, be it big or little, under the present laws would have a thing to do with retiring currency?

Mr. JORDAN. Yes, sir; because if it was——

The ACTING CHAIRMAN. Then, you think differently from what they do at the Treasury Department.

Mr. JORDAN. I do; I think it is a withdrawal of an equivalent amount of money, and is therefore the same thing as retirement of the bank notes. If the tax were sufficiently large as to take away the profits, and so make its issue of use only in an emergency——

The ACTING CHAIRMAN. Let us follow that a little further. I will suppose that a bank has taken out $50,000 and wants to retire it. You would permit them to carry in lawful money and deposit it in the Treasury. That stops their interest, but the currency is still out circulating, just the same as if it were not retired at all.

Mr. JORDAN. Pardon me. That particular currency is not retired, but the money deposited is retired, which is equivalent.

The ACTING CHAIRMAN. There is no law impending that you shall only pay it out as fast as you get the other currency in.

Mr. JORDAN. There should be. The money that is put in the Treasury for such a purpose should be held there; otherwise you would destroy the intention of your act and aid in inflation.

The ACTING CHAIRMAN. You would have to have special legislation for that.

Mr. JORDAN. Yes. As regards the proposed issue, if you offered a premium of one-eighth of 1 per cent for the notes they would be sent home to you, and you could take them to the Treasury and exchange them for the gold in the special fund. They could not be reissued except during the fall and winter months.

The ACTING CHAIRMAN. I do not understand that under the existing methods and under existing laws that a tax would cause retirement, because the banks would get rid of the tax by depositing lawful money, and therefore the tax would not have anything to do with retiring the currency.

Mr. JORDAN. It would not necessarily, under the present law, because, although an equivalent sum of money would be deposited with the Government, this money might be paid out again and not held for the redemption of the notes. I think such an act on the part of the Government defeats the retirement provisions of our national-bank act. However, I am not proposing to issue this additional currency under the same methods.

The ACTING CHAIRMAN. Do you believe that bond-secured currency can be made sufficiently elastic?

Mr. JORDAN. Our United States bond-secured currency is sufficiently elastic if you prevent its being used to speculate in bonds.

Under the proposed methods I think it would be sufficiently elastic for safety. If banks did not absorb their surplus credits in an effort to carry inflated securities, there would be plenty of elasticity in our medium of exchange. I think the proposed issue would reach the needs of the country without causing inflation. If it did not work, it would not cause a dangerous inflation, and it could be done away with.

You can not furnish sufficient currency to meet all the demands of an elastic speculation.

The ACTING CHAIRMAN. Have you examined the Fowler bill?

Mr. JORDAN. I have.

The ACTING CHAIRMAN. What do you think of the principle upon which it is based as to the currency; also as to guaranteeing deposits of all banks?

Mr. GILLESPIE. Let us get his opinion on the subject of guaranteeing deposits.

The ACTING CHAIRMAN. What is your idea about guaranteeing deposits?

Mr. JORDAN. I think the guaranteeing of deposits through the medium of a guaranty fund is unsound, as it will not only produce confidence, but overconfidence.

The ACTING CHAIRMAN. I guess you and I agree on that.

Mr. JORDAN. This overconfidence would lead to greater speculation, and consequently a greater panic.

My objection to the bill is on account of its currency and guaranty of deposits provisions. Its provisions relating to trust and savings deposits are very good, and its restriction as to payment of interest on demand deposits is a long step in the right direction.

I am opposed to the introduction of an asset or flexible currency into our banking system, managed as it is, and our people being so speculative. I think that credit currency would, during a period of rising prices, be used to produce greater inflation under a system where bankers not only do not attempt to check speculation, but, on the contrary, often encourage it.

The reserve system is very unsound, as it places our national bank notes on the same footing as regards reserves as our deposit credits. The failure of any large demand deposit institution in a central reserve city would tie up the circulating medium of the common people, and thus cause great loss to those least able to bear it. The majority of the holders of our bank notes do not keep accounts with banks or borrow money from them, and are therefore only receiving the indirect benefits from banking.

The insurance of deposits by the National Government would throw the burden on the people. It would produce overconfidence. The guaranty would be taken advantage of by speculators, and in the end produce panic, even undermining confidence in the National Government.

Compulsory insurance would weaken our system, as banks with a carefully selected line of assets would not care to be taxed for the speculative excesses and bad judgment of their neighbors. Good banks would drop out of the system. Speculators would come into it, and would depend upon the guarantee fund rather than upon the convertibility of assets to secure confidence. The assets of the banks

which should loan on liquid or operating capital would become speculative and stringent.

Unless there is some method of interested representation and efficient negative control of the loans of the banks their deposits can not be safely insured.

This insurance is not like life insurance. A man naturally protects his life. His policy does not promise to give him another. It is not like fire insurance. The character of a house is fixed and the policy of insurance contains a clause that makes the policy voidable on the part of the company if any alteration is made in the house which affects its character without the consent of the company. The assets of a commercial bank are constantly changing and are not fixed in character. The positions of borrower and lender are constantly changing among its customers and depositors.

The insurance of deposits without effective control would produce unsound banking. A mortality table based on the present independent banking system with its bond-secured currency, which figures out an annual tax of one-eighth of 1 per cent would more than cover any loss, can not be applied to your new system, where you intend to alter it so radically. If that is all the loss we have had under our present system for the last forty years, and our country has grown as it has, I think it is a pretty good system to stick to.

Mr. McKinney. As regards the circulation under the Fowler bill, how do you stand on that?

Mr. Jordan. I do not believe a note holder and a depositor should be placed on a parity. A note holder should have greater protection than a depositor, because the depositor selects his bank willingly and knowingly, and he should take the risk and not share it with the note holder. There should be priority of right of security as regards the note holder. A deposit is not an involuntary act. If a depositor loses his bank book he does not lose his account. If a note holder loses the note, he can not recover. It is not fair to the common people

Mr. Waldo. But suppose you make a note which is a lien on all the assets of the bank?

Mr. Jordan. That removes my objection.

Mr. Jordan. You are opposed, as I understand you, to any system of asset currency?

Mr. Jordan. As regards to being introduced into our system, most emphatically; but that does not mean that I do not think it a good idea when properly handled, as it is under the Canadian and Scotch systems. Those bankers do not permit their customers to speculate with credits of the banks. These systems, however, are practically monopolies. The 35 chartered banks of Canada have a pretty general understanding through the Canadian Bankers' Association. I have a very high admiration for the way they handled this recent crisis. But in order to make a success of their system of note issues in this country it would be necessary to bring over their branch banking system, their assets, the experience of their people under it, their bankers to manage it, and their staff to carry it out. There are about 11 banks in Scotland, and it is very difficult to start a new one.

The Acting Chairman. Let me ask you one question more. We have had our system a good many years—forty or fifty years—and no other nation in establishing a system has seen fit to follow it.

Mr. JORDAN. As far as that is concerned, the Japanese followed it and then abandoned it.

The ACTING CHAIRMAN. They followed it a very short time and threw it out.

Mr. JORDAN. On account of a rebellion, and also I believe they were on a silver basis. It was an unfortunate decision, or rather unjustified, in light of what happened last spring. I referred to that a short while ago.

Mr. HAYES. I want to ask if it is not true that there is no other commercial nation in modern times that has had what we call a currency or money panic? If there is one I never heard of it.

Mr. JORDAN. I think panics are produced by loss of confidence in the banks, as a rule, and a desire of people to convert their deposits into immediately available resources under any and all conditions—gold. Although the inability of a government that issues paper money to convert it readily into the standard of of value of that country, with which the paper is supposed to circulate at parity, has caused money panics.

Mr. HAYES. No, not entirely. That might be debatable, but is there any other commercial nation that has had a currency panic in the last fifty years except the United States?

Mr. JORDAN. I do not think we have had one.

Mr. HAYES. Well, I have been through two myself, and I am under the strong impression that we have had.

Mr. JORDAN. I did not quite catch the question. I was referring to 1907. I do not think it was a currency panic. I think it was a depositors' panic.

Mr. HAYES. I could not get any money in 1894, even on United States bonds. I could not raise it on anything.

Mr. JORDAN. That was because of the belief we were going on a silver basis.

Mr. HAYES. Is there any other country in the world that has had such a panic as that?

Mr. JORDAN. Not that I recall at the moment. There was a panic in Chile last year and their paper money depreciated.

Mr. WALDO. I would like to ask one question that goes into the fundamentals of this thing. Is there any reason why the laws of this country should compel bankers, or anyone who desires to go into the banking business, to accept deposits and be prepared to pay out lawful money at any time, on demand? In other words, let me put it in concrete form: With fifteen billions of credits due to depositors in the banks, there is in actual existence to-day, if I remember correctly, about three thousand millions of money of all kinds—less than one thousand millions in the banks; that there is a little less than one billion of all kinds of surrency to meet fifteen billions of credit; and under our present system the only thing they can be paid with, to act legally, is that one thousand millions. So the banks are put in a position where, in case of a depositors' panic, as you call it, they are all at once insolvent because they can not make payments.

Mr. JORDAN. It should be as regards commercial banks. If it were not, banking would cease, as working balances would not be carried with banks unless depositors could convert their credits into the standard measure of value (gold) or money on a parity therewith,

on demand. People would not deposit money. You can not pay them off in times of distrust by changing the form of a credit to a circulating note.

A banker banks on the fact that his depositors will not all want their credits converted into money at the same time. If they did, there could be no banking.

In the panic of 1907 people were attempting an impossibility in trying to convert the credits of this country into cash. The only recourse of the banks in affected centers was to suspend currency payments, as their loans could not be liquidated—just as in 1857. It was necessary for the mutual protection of all concerned. I do not think the small people were hoarding money as much as the larger ones.

Asset bank notes would have been no relief during a panic caused by lack of confidence in banks. The public would have discriminated against them just as much as against deposit credits. We would have had a currency panic also, and the loss would have fallen on the poorer people.

Those who remember the old currency, the profits of the men who handled it, and the daily occurring losses of the public, do not want to see its like again.

Mr. WALDO. Is it not a fact that a large part of the circulation of the Bank of France is based on that very thing, and that there has never been any trouble?

Mr. JORDAN. No, sir; because there is over 85 per cent in gold or silver, as a rule, held against its notes and deposits.

Mr. HAYES. But that reserve is not against its own obligations only, but against those of all of the branch banks. It is a reserve for the whole nation?

Mr. JORDAN. Not exactly. The Bank of France is a branch banking organization. The reserve is against all its notes and against all its deposits, whether of its head office or branches. It is not compelled to keep this reserve, but it is its custom.

Mr. HAYES. A national reserve?

Mr. JORDAN. Its reserve is against its notes and public liabilities. It is the only bank that issues notes.

Mr. HAYES. But not against its notes and its own deposits only.

Mr. JORDAN. Yes; though I believe it acts as a central bank, just as the Bank of England does, and discounts commercial paper due within three months upon indorsement of two other banks or bankers.

Mr. WEEKS. Now, to return to the Aldrich bill, you referred a little while ago to the fact that issuing circulation against State or municipal bonds would give too much political power to the administration, I believe you said.

Mr. JORDAN. Yes, in the sense that it would give a privilege which could be offered by whatever party was in power.

Mr. WEEKS. In what way would that be accomplished?

Mr. JORDAN. In this way: The right of having the currency privilege would aid in getting a better price. The understanding that the bonds would be accepted as security for circulation would aid in marketing the bonds. The privilege would be of advantage to any State, county, or city.

Mr. WEEKS. Is there any objection to that?

Mr. JORDAN. It would permit a party to promise this privilege, or the extension of it, in return for support at election.

Mr. WEEKS. Granting what privilege?

Mr. JORDAN. The acceptance of these bonds as a basis for security for national bank note circulation.

Mr. HAYES. Do you think that in most times, if they had to pay 6 per cent interest on circulation, it would be a very great favor to them?

Mr. JORDAN. The net loss, about 2 per cent, resulting from the tax of one-half of 1 per cent a month after deducting the interest on the bonds, would be more than made up by profits from fluctuations of the stocks in which interested parties were dealing.

Mr. HAYES. I agree with you.

Mr. GILLESPIE. Your idea is that if New York saw an opportunity of having the privilege of making her bonds the basis of currency the citizens of New York, for this special advantage to them, would get behind the party there to its advantage?

Mr. JORDAN. Yes, sir; or any other city, county, or State that desired to market bonds at a more advantageous figure.

Mr. GILLESPIE. And if we should get on that system and there should come up any question of getting from under it, would not the citizens of New York make the claim that by virtue of the law you have boosted their markets, and that they have money invested and plead, just like the bondholders of the National Government, not to interfere with the market for the bonds?

Mr. JORDAN. That is a very good illustration. It would certainly tie up the National Government with bond markets. There is no provision in the Aldrich bill that would protect the Government in case the bill failed to work as designed. I think there should be in every financial measure.

Mr. HAYES. That I admit; but I do not see how the political power comes in, because the bonds of every State and every country and every municipality of a certain size are to be included in this basis for circulation.

Mr. JORDAN. I did not catch your question.

Mr. HAYES. If it is the basis for circulation, I do not see where the political power would go with it.

Mr. JORDAN. Because, if political leaders wanted the support of any State or county they could promise to extend the privilege, saying: "Well, we will enable your city bonds to be used." The grade of the bonds accepted would gradually deteriorate.

Mr. WEEKS. Do you think that sort of nonsense is used in connection with national currency? Do you think that any party of men in responsible positions would use that sort of nonsense in connection with national currecy?

Mr. JORDAN. Yes. As regards deposits of funds in national banks, that has already been done.

Mr. WEEKS. What evidence have you that there is any political influence whatever in connection with the policy of the Secretary of the Treasury in depositing funds in national banks?

Mr. JORDAN. In 1904 money was very cheap in New York and the country was in a period of depression. In fact, banks did not know what to do with the money. There was about ninety millions of money left by the Government in banks throughout the country.

There was no need for that money. It was not demanded in business. Why was it left there? Was it for the purpose of starting an inflation to create an appearance of prosperity in order to obtain support in the Presidential election in the fall? That cheap money was at the basis of this present inflation. There is danger in it. That is what I say.

Mr. WEEKS. Have you any evidence that that was the reason it was left there?

Mr. JORDAN. No; there is no evidence. It was done, and that is, to my mind, possibly the cause of its being done.

Mr. WEEKS. Do you not think other reasons could be shown as well as that?

Mr. JORDAN. There might be. I would like to hear them.

Mr. HAYES. Do you think that if there was a Democrat in the Presidential office, and there was a Democratic Administration, that the money would be scattered around just the same.

Mr. JORDAN. Certainly; it does not make any difference what the political principles of the Administration would be, the temptation would be there.

Mr. HAYES. You do not have any idea that the money was left with the banks with a political understanding.

Mr. JORDAN. I think this: That it was not left there with a political understanding with the banks exactly, but that it was left with the idea that cheap money would cause a speculation in securities and create an appearance of prosperity just prior to a Presidential election, which would tend to retain the Administration in power.

Mr. WALDO. Do you think, for instance, that when this country gets back on a sound basis and the unsound speculation is squeezed out, and we start again to build up, that it will make the slightest difference in the starting of new schemes and the extension of business whether the currency is decreased $600,000,000 or whether it is increased $600,000,000?

Mr. JORDAN. It would make a very great difference. If the currency were decreased, it would draw money from the banks into circulation to replace that which was needed, causing a calling of loans and forcing liquidation. If the currency were increased beyond the needs of the country to exchange products or aid in production, it would produce an inflation. The excess would be used on account of low rates to carry commodities—that is, to store them rather than market them, with the object of selling them back on the wholesale market on a speculative rise. It would be used to carry commodities or stocks for speculation rather than for retail distribution. If the excess issue were great, it would cause cheap money and drive gold out of the country, possibly producing a panic. If we have the right to increase our currency, it will be exercised, for the very reason that if a speculator can obtain credit cheaply he will find means of using it.

Mr. WALDO. Is not what is used in the country in business the fifteen billions of credit and not the three billions of currency?

Mr. JORDAN. Yes, sir; about 95 per cent of our wholesale business is conducted on credit and about 75 per cent of our retail.

Mr. WALDO. Then the increase in currency would have little to do with the expansion of business, the starting of new manufactures,

the laying out and irrigation of new lands, the building of new railroads, etc., would it?

Mr. JORDAN. It would furnish more credit, and therefore aid, but if increased too rapidly, so as to produce great speculation, it would cause an overconsumption of circulating, or operating, capital into fixed investments, and thereby create a capital stringency. The danger would be the substitution of the currency in place of reserve money and the expansion of bank credits of four to one.

Mr. WALDO. I fail to understand yet how the fact that there is six hundred millions or a thousand millions in currency has any effect in increasing the credits of this country. I do not see how it increases the credit of the country any. If it is based on Government bonds or securities, as it is to-day, or if it is based on deposits as proposed by the asset currency scheme, that does not add anything, does it? It must be in the form of currency or in the form of credits on the books of the bank.

Mr. JORDAN. If you issue it as a note it would go into circulation in place of, say, gold, and the bank would obtain in exchange for it that gold, and thus be able to expand deposit credits further.

Mr. WALDO. I know; but that note represents the assets of this country in some shape or other, does it not?

Mr. JORDAN. If it is issued against value for the purpose of marketing products, it is sound. It may be loaned against the customer's credit, which may be merely secured by a speculative value. It represents an asset, but the asset may be fixed or circulating, a commodity or an investment security.

Mr. WALDO. If you hold that gold in the vault of the United States, or in the vault of a bank, and issue paper money against it you have not increased the credits of the country in any way, have you?

Mr. JORDAN. No; you have not, if you issue it dollar for dollar, as a direct representative—a gold certificate.

Mr. WALDO. If, on the contrary, instead of issuing it against the gold you issue it against the deposits of the bank, you have not increased the credit any, have you?

Mr. JORDAN. In case you are paying off a depositor's draft in these notes, no; but in case you are loaning them against the credit of your borrowers, you are increasing the liabilities of the bank.

Mr. WALDO. If you issue them against the credit of the bank, then the credit on the bank book is gone the minute you do that, is it not?

Mr. JORDAN. Yes; in case you are paying off a depositor, but in case you first place that amount to his credit on deposit and then transform it into notes, you are increasing.

Mr. WALDO. I understand that.

Mr. GILLESPIE. Mr. Waldo's idea is this, if I catch it: If the banks had a right to issue notes based upon their assets, that would not add to their deposit liability, but that the issue of these notes would bring down the deposit liability so that the aggregate of both under the new system would not be more than the deposit liability alone under the present system.

Mr. WALDO. That is exactly what I mean.

Mr. JORDAN. If paid to a depositor in reducing his account, it would not be any addition. The note may be loaned out, however, and therefore the liability of the bank increased by the addition of

a new credit. The man to whom the note was paid by its original borrower would hold it. He would not deposit it promptly, like he would a check. These notes will be held out in circulation because they are money, or a means of unconditional payment. A check is a means of conditional payment and will be promptly collected.

Mr. CRAWFORD. As to the political feature, I understand you to suggest that different parties might give assurances to States or municipalities that in the event of success at the polls the bonds of the State or municipality would be preferred to those of some other State or city.

Mr. JORDAN. No; not preferred, but that the privilege would be extended to their bonds.

Mr. CRAWFORD. That would mean to the exclusion of others?

Mr. JORDAN. No; not necessarily to the exclusion of others; but if they wanted to market their bonds they would like to get this right.

Mr. CRAWFORD. How would that be different from others that have the right?

Mr. JORDAN. It would not be any different, except that the market for the bonds would be wider if the city had a better credit, and therefore the United States Government would be more secure.

Mr. CRAWFORD. In order that they might have the preference in this State that you refer to and have the preference over any other State or city, they would have to have their assurance from the successful party at the polls in order to meet your objection, would they not?

Mr. JORDAN. They would have to be sure that the party was going to be elected. They would have to work for its election. I do not mean the bonds would be given preference.

Mr. CRAWFORD. That is to say, if one party would promise New York that in the event of success it would prefer their bonds to the bonds of Ohio——

Mr. JORDAN. I would not say "prefer." I say "accept."

Mr. CRAWFORD. They could not all be used, because there would be a limitation to the amount of issue.

Mr. GILLESPIE. If I understand Mr. Jordan's position, it is this: Not that there would be any discrimination, but that all over the country there would spring up advocates of the theory of making a bond market for municipal bonds, and that would create a sort of political party.

Mr. CRAWFORD. Would not that necessarily follow?

Mr. JORDAN. I say it would follow.

Mr. GILLESPIE. That is his objection.

Mr. CRAWFORD. But that would not be by reason of any sort of suggestion on the part of any party.

Mr. GILLESPIE. He does not speak in any partisan sense, but of the situation all over the country. Now, I do not know whether you agree to this, but now, regardless of party, there is a strong political movement in this country for the continuance of the present bond-secured currency in order that the Government may float its securities at a low rate.

Mr. JORDAN. Yes. That is one trouble. They would want to be able to market their bonds, and would urge an increase of the privilege. The political support of these bond-market advocates would be sought by the party leaders.

Mr. CRAWFORD. Suppose the register of bonds should withdraw the bonds as security for the notes, would the price of those bonds in the market fall?

Mr. JORDAN. Yes; if the privilege were withdrawn.

Mr. CRAWFORD. The market value would be less?

Mr. JORDAN. Yes.

Mr. CRAWFORD. So that the fact that they are the basis of the currency gives them a higher market value?

Mr. JORDAN. It certainly does.

Mr. CRAWFORD. It was intended for that, was it not, primarily?

Mr. JORDAN. Not altogether. The idea originally, I think, was to interest the bankers in supporting the Union at the time of the original national-bank act. However, it furnishes the people with the cheapest and safest currency they can get. It only costs the people 1½ per cent per annum, $9,000,000, to keep that currency in circulation. It is worth it to the laborer, miner, and farmer, let alone to the vast business community. It was established, primarily, to replace the wildcat asset currency then in use by a safe currency.

Mr. CRAWFORD. Do you object to a bond-secured currency?

Mr. JORDAN. I object to any bond-secured currency except as against United States Government bonds.

Mr. CRAWFORD. Why so?

Mr. JORDAN. Because I think it would become a question of politics, largely. The issue of United States bonds is under the control of the National Government, and its issue, except for the needs of the Government, would be severely criticised.

Mr. CRAWFORD. That is what I was trying to get at a moment ago, but I do not see any politics in it.

Mr. JORDAN. It does not necessarily start with it, but it will result, owing to the demand for the privilege in order to market the bonds.

Mr. WALDO. If I understand you, when you say that politics will come in, what you mean is that whatever party might be in power, in order to keep itself in power, would urge the acceptance of municipal bonds from a given part of the country, and the issuance of more currency against it?

Mr. JORDAN. Yes; that party would inflate the currency in order to create a sort of boom.

Mr. WALDO. To create a kind of sentiment in favor of the party which might be in power, whatever party it was?

Mr. JORDAN. That is my idea. It would make no difference what party it was.

Mr. CRAWFORD. Where the result of the election might hang upon so-called pivotal States, do you think the authorities here, the Secretary of the Treasury and the Comptroller of the Currency, who have the power under the Aldrich bill to determine what bonds shall be accepted, and when, and the value of them, might promise those particular States an advantage?

Mr. JORDAN. I would not say that those officials would do it of their own initiative.

Mr. CRAWFORD. They have the power to determine it.

Mr. JORDAN. I rather think the party in power or their leaders would have that general understanding.

Mr. CRAWFORD. You think that those close States would have the preference in getting the currency issued, then?

Mr. JORDAN. Yes, sir. I think if there were any preference to be shown it would be toward the acceptance of bonds from those States that were close or favorable to the Administration.

It is a well-known fact to persons who are posted in the manipulation of party leaders in several of our States, that as a matter of policy the State treasury maintains a large surplus against its debt, on which it is paying interest, but which interest is offset by putting the money out at interest among banks. The deposit of the money being under the manipulation of the party managers, this money was loaned to banks throughout the State with the understanding that the banks will be active and efficient in the management of politics in their locality, and that the application of the managers, their friends and adherents, for loans, would be favorably considered by these banks.

Therefore a bill on the line of the Aldrich bill would tend to lead to dangerous inflation, producing an emergency rather than preventing one. It would be possible for party leaders and their friends who were interested in a security boom, or any other speculation, to have the city, county, or State in which their influence was predominant, issue bonds and place same with friendly banks, leave the proceeds on deposit, the banks obtaining currency against the bonds, and thus be able to carry the inflation higher. The net loss of .2 per cent on account of the tax would not hinder as the profits resulting from dealing in stocks would more than offset such loss. As the demand for the currency would be presented to the Secretary of the Treasury in the light of meeting the needs of business, it would hardly be difficult to obtain the necessary consent.

Mr. WALDO. Are you connected with any financial institutions in New York?

Mr. JORDAN. Absolutely none.

Mr. WALDO. * * * If there is anything more that you think would be of use to us, I should like to have it.

Mr. JORDAN. I should like to say something about the bankers' bill, recommended by the American Bankers' Association at its last meeting in Chicago.

I am opposed to this bill because I think it would cause a dangerous inflation. There is a provision for the daily redemption of notes in specie. I do not think, however, that it is practical to put their redemption system in operation. The difficulty of assorting and sending in for redemption the notes of over 6,500 national banks, a number of which would be largely increased in case banks were allowed to issue asset currency, would prevent their being sent in for redemption. The banks would sooner pay them out over the counter. This system works in Canada and Scotland, but there are only 35 banks which issue notes in the former country and 11 in the latter. They are branch banking systems, which are practically monopolies. The notes of national banks were redeemed under an almost similar system prior to the establishment of the bureau of redemption at Washington, June 20, 1874. The banks would not assort notes and send them to redemption agents. They paid them out over the counter. The system failed and the notes went to a discount.

(The committee thereupon adjourned until Wednesday, January 29, at 10.30 o'clock a. m.)

HEARINGS

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENTS OF

MR. FRANK MILLER
of San Francisco, Cal.

MR. T. C. DANIEL
of Virginia

MR. SAMUEL GOMPERS
President of the American Federation of Labor, Washington, D. C.

COMMITTEE ON BANKING AND CURRENCY
U. S. HOUSE OF REPRESENTATIVES

JANUARY 29, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

(APP B)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, January 29, 1908.

The committee met at 11 o'clock a. m.

Present: Representatives Fowler (chairman), Prince, Powers, McMorran, Weems, McCreary, Waldo, Hayes, Weeks, Burton, McKinney, Durey, Lewis, Pujo, Glass, Gillespie, James, Crawford and McHenry.

Present also, Frank Miller, esq., of San Francisco, Cal.; T. C. Daniel, esq., of Virginia; Samuel Gompers, esq., and others.

The committee thereupon resumed the consideration of the various measures before it dealing with financial matters.

The CHAIRMAN. Is anybody here who desires to be heard this morning? Are you gentlemen here to be heard or to hear?

Mr. FRANK MILLER. We are anxious to hear from the officials of the Government first, if they are going to appear here.

The CHAIRMAN. We have not heard from them as yet.

STATEMENT OF FRANK MILLER, ESQ., OF SAN FRANCISCO, CAL.

The CHAIRMAN. Please state your name.

Mr. MILLER. My name is Frank Miller.

The CHAIRMAN. Are you a resident of Washington?

Mr. MILLER. No, sir; I am living in California.

Mr. GILLESPIE. You are from San Francisco?

Mr. MILLER. San Francisco, Cal. Mr. Chairman and gentlemen, I have here a pamphlet, which I think probably you have already received. It is a pamphlet by Francois Meunier. I have read this pamphlet and simply want to indorse it. The substance of it is that Mr. Meunier evidently recommends the grouping of all banks in a certain section, without regard to whether they are State or national, into a corporation; that the corporation shall receive collateral from these different banks, and upon that collateral this syndicate, so to speak, shall receive from the Comptroller of the Currency notes not issued by the United States, but printed by the United States, and shall issue them. These notes, of course, are nonlegal tender. They shall not bear interest. They are to become due on a fixed date, and on that fixed date the money must be paid into the hands of the United States Government and shall remain there for the redemption of those notes after that date.

The theory of the plan seems to be that an emergency currency has got to be very easily made and handled, and that the best way to terminate it is to make it payable at a definite date, after which the money shall remain in the United States Treasury for its redemption. That thereafter the notes will be equal to Bank of England notes.

They will change from purely commercial notes into first-class representative paper.

The CHAIRMAN. Does any gentleman of the committee desire to ask Mr. Miller any question?

Mr. HAYES. I do not know whether Mr. Miller is prepared to be interrogated. but I would like to ask what is the object of making the notes payable at a certain date? I do not see any object in that.

Mr. MILLER. Of course I must express my own opinion, that the emergency currency is not to be as enduring as a rock. The ultimate credit is in it, and there is always an uncertainty in it until its payment; and, coming up against a definite date, it is either paid or dishonored.

Mr. HAYES. But what man is wise enough to prophesy when the necessity for that currency is going to come?

Mr. MILLER. These banks, I should think, would habitually issue these notes on three and six months' dates, and probably they would float at par at a three months' date. If the banks required a longer time they would have to issue them at six months or one year, and I think that pamphlet prescribes that the usury laws shall not apply. I have been in the banking business, and my theory is that the banker would stand almost any charge of discount in order to meet his depositors.

Mr. HAYES. Why not let it be payable on demand, and let the necessity determine when it shall be paid?

Mr. MILLER. Because when a banker is short of money he is not in need of demand notes.

STATEMENT OF MR. T. C. DANIEL, OF VIRGINIA.

The CHAIRMAN. Do you care to be heard, Mr. Daniel?

Mr. DANIEL. If there is no one else here I think I would like to contribute something.

The CHAIRMAN. Where are you from, Mr. Daniel?

Mr. DANIEL. I am from Virginia. I will first state to the committee that I am not interested——

The CHAIRMAN. You had a good bank at one time, before the war?

Mr. DANIEL. I have watched the currency question, or the money question, I would say, for twenty years with a good deal of interest; and, after reading pretty much everything that everybody else has said on the subject, I felt it rather my duty to come here and make a few contributions to the educational fund myself. Before doing so, I will say that I traveled a good deal summer before last in England, Ireland, and Scotland. When I was in London I interviewed the Bank of England, and I also made investigations in France; and recently I have returned from a trip through Italy. Having had practical experience for many years in mercantile life in this country, I was investigating conditions there, to see, by comparison, whether we could profitably imitate anything that they have in the way of a banking system. But since traveling around those countries I realize that the best civilization the world has ever known, and the best government the world has ever known, is right here in the United States. And the responsibility of the best civilization in the world rests upon the representatives of the people in the Congress of the United States.

Now, when going through the Bank of England I presented a letter which I had from Secretary Hay, and the official of the bank was very polite. He took me through the bank, and when we got back into the reception room I asked him if he would allow me to put a few leading questions to him. He said he would, and I asked him if he could give me a statement of the Bank of England. "We do not issue any statements." "Does not the House of Parliament sometimes call on you for some statement as to the condition of the bank?" "No, sir; they do not call on us." "How do you regulate this whole business? Is it a close corporation?" "Well, the stockholders get their dividends periodically, and that is all they have to do with it." "How is it that some of these revolutionists, so called, do not get up in the House of Commons and raise the devil to know something about what is going on down here? That would be the condition in our country." "Oh, most of them are very large borrowers from the bank, and we do not have any difficulty with them." [Laughter.]

I tell you, with my experience and observation of twenty years, there is a whole volume in that, through the ramification of credit. Thousands and thousands of the best minds in this country are subservient. You can not find to-day five men out of a thousand who would come up here and express their disinterested opinion. Why? Because they are borrowers.

Mr. GILLESPIE. Right on that point, as to the Bank of England, Mr. Daniel, are they not required under the law to make a public statement every week or every two weeks in the London Gazette, giving the condition of the bank?

Mr. DANIEL. Yes, they may be required by law, but the law is like a great many laws of our country—like the Sherman Act, which was on the statute book for fourteen years, and nobody took any notice of it.

Mr. GILLESPIE. But you can take the London Gazette and see a statement of the bank appearing there according to the law, anyhow. Whether it is a correct statement or not of course I do not know.

Mr. DANIEL. I say that you can not get a true statement from the Bank of England to-day as to its actual condition and who owns the assets.

Mr. POWERS. You certainly can get a statement.

Mr. DANIEL. You can get a kind of a statement, but so far as finding out who owns the assets of the bank is concerned——

Mr. POWERS. It is distinctly a stock corporation.

Mr. DANIEL. Yes; as I say, it does not affect them so far as getting dividends is concerned, but they do not know the facts as to the true condition of the bank.

Now, we come down to comparing this country with other countries of the world, and I can not see any reason why a country that has $117,000,000,000 of national wealth, and is creating about $3,400,000,000 of national wealth a year, and which has $25,000,000,000 of internal commerce, should ever defer to any other country in regard to establishing a money system. What has impressed me in this whole question is this. The Bankers' Association for several years has been meeting around the United States, and I suppose

there is not a section of the world where men have not been trying to formulate something definite; but the great difficulty seems to be that they do not locate on a firm foundation; they do not get correct premises, and consequently there is no logical conclusion reached.

The money panic of 1907 has brought the issue at last squarely before the American people. It is no longer to be hidden in sophistry. The old catch phrases of fiat, ratio, parity, and bimetallism versus the gold standard, will no longer mystify the average intelligence of the American citizen. They are up against a currency famine in the most prosperous conditions the country has ever known.

Giving additional privileges, in the shape of class legislation of the worst kind, to an obsolete national banking system, whose creation was only justified by the losses attendant upon a great civil war, will never be tolerated as being in the interest of the people.

These banking corporations ever since they made large fortunes out of the war debt have been before Congress asking valuable concessions in order to perpetuate their existence.

Unfortunately the United States Treasury Department has become a training school for presidents and vice-presidents of national banks; and unless something is done to protect the people they will be so merged as to be practically in the same business. The maxim of the money lenders of the Old World will then be in operation: "Let us control the money of a country and we care not who makes its laws."

This being the case, it is about time the American people who have created and own $117,304,211,917 of the wealth of this country should be heard.

This question is of such vital importance to them that it throws into insignificance any legislation that simply deals with how the banks are to loan out $2,876,368,696 in the currency system.

We find in the report of the Comptroller of the Currency at page 48:

> Of the total stock of money in the country 11 per cent is held in the Treasury as assets, 35.51 per cent is in reporting banks, and 53.49 per cent elsewhere, the per capita not in the Treasury or banks in 1907 being $19.36 or $1.03 less than in 1906.

The CHAIRMAN. Will you repeat that last statement?

Mr. DANIEL. "The per capita not in the Treasury or banks in 1907 being $19.36 or $1.03 less than in 1906."

The CHAIRMAN. What do you mean by saying "in the banks?"

Mr. DANIEL. I mean in circulation. The rest is impounded in the reserves of the banks and in the Treasury Department.

The CHAIRMAN. You do not mean by that the deposits?

Mr. DANIEL. Well, it is a very plain statement from the Comptroller of the Currency. I do not want to alter his language.

The CHAIRMAN. But I thought that as you used the expression you might define it.

Mr. DANIEL. I can define it from being perfectly familiar with it. That is the actual amount of money that is doing the work, or the money in circulation in the country.

Mr. CRAWFORD. You speak of the actual money, and not of the deposits?

Mr. DANIEL. Yes.

In other words, only $1,679,853,760 is in circulation and doing the work of money.

The question is now asked by over 86,000,000 people in this country, with no uncertain sound, How is the Congress of the United States, to whom we have delegated the authority, going to supply this need of a permanent addition of real money to our currency system? No other power has a right to obligate the people, no other power can issue a perfect money unit, a legal-tender dollar, the ultimate of payment. The money issued by the authority of Congress under the Constitution of the United States, exercising its sovereign power, derived from the 86,666,000 people of this country, is not only redeemable in everything owned by them, but a legal tender for all debts, public and private, estimated at many billions.

It is only necessary to realize the above facts to see how essentially the people are interested in the money question. It directly and individually affects every citizen, from the lowest to the highest, every dollar representing the plighted faith of the poorest and the richest, one to accept it for his property and debts due him, the other for his daily toil.

This being the case, and the inventory of the national wealth of the people of the United States being taken, I ask if any country or people can issue as good a dollar or money unit, with as much back of it, as the Congress of the United States can, having full power under the Constitution to obligate the entire national wealth of $117,304,211,917 for its redemption, as well as the life work and services of the population of 86,666,000, the most robust, enterprising, and productive people known to civilization, their homes and property being in a country described by Gladstone " as having the natural base of the greatest continuing empire the world has ever known," and producing everything necessary to the human family.

Now, I have a summary here of the gold coin and bullion imported and exported in the years ended June 30, 1900 to 1906.

Gold coin and bullion imported and exported years ended June 30, 1900 to 1906.

	1900.	1901.	1902.	1903.	1904.	1905.	1906.
Imported	$44,573.184	$66,051,187	$52,021,254	$44,982,027	$99,955,368	$53,648,961	$96,221,730
Exported	48,266,759	53,185,177	48,568,950	47,090,595	81,459,986	92,594,024	38,593,591

Gold production, United States, for years as follows:

1900	$79, 171, 000	1904	$80, 464, 700
1901	78, 666, 600	1905	88, 180, 700
1902	80, 000, 000	1906	94, 373, 800
1903	73, 591, 700		

This table will show that gold, so far as international exchange or trade is concerned, takes care of itself, as the difference between imports and exports is only $47,694,629 covering a period of seven years, and the United States produced during this time $574,448,500, or annually $82,064,071.

On page 3, Statistical Record, Department of Commerce and Labor, under the head of " Money in circulation "—I call special attention to it—is the following:

" 1897. Gold in circulation, $517,589,688."

" July 1, 1907. Gold in circulation, $561,697,371 "—only an addition in ten years of $44,107,683, or an average of $4,410,768 per year.

Now, look at this contrast. During this time the national wealth of the United States has increased over $28,000,000,000, as shown by the report of the Department of Commerce and Labor for 1907:

It is the total quantity of money in circulation in any country which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country. It is the proportion between the circulating money and the commodities in the market which determines the price.

The CHAIRMAN. Mr. Daniel, I would like to say this: We have $34 per capita, and Canada has $19 per capita. Is there that much difference in the price of commodities in the two countries?

Mr. DANIEL. But you have not that much here. It is tied up. Only $19.36 in circulation.

The CHAIRMAN. But Canada has not got $19 among the people. Canada's total circulation, all they have out, is only $19 per capita, and that includes their reserves, and what is in the treasury of the Dominion, and all. I think they have $10 or $15 in circulation up in Canada, and we have $20. How do you account for the prices across the line up here being the same?

Mr. DANIEL. If you will make a memorandum of that, I will come back to it.

The CHAIRMAN. I would like to ask another question, and you can answer them both at the same time. In Belgium they have about $9 per capita and in France $35.

Mr. DANIEL. France has $40.

The CHAIRMAN. That is so much the better.

Mr. DANIEL. I am familiar with all those facts.

The CHAIRMAN. I just wanted to call your attention to that.

Mr. MCKINNEY. In Alaska they have a circulation equal to that in the rest of the country, and the prices there are tremendous.

Mr. DANIEL. A simple statement of fact is enough to show that the gold in our money system is no longer the standard by which the tremendous wealth of the country is measured. The so-called gold standard is a mere fiction of the mind, a pretext for banking systems to issue credit money on.

The following paragraph from the report of the Secretary of Agriculture suggests a comparison:

The grand total for 1907 is $7,412,000,000. This is $657,000,000 above the value of 1906. During the last nine years wealth was created on farms in the United States to the fabulous amount of $53,000,000,000.

This would buy the whole stock of gold in the monetary systems of the world, December 31, 1906, as estimated by the Director of the Mint, as follows:

In banks and public treasuries	$3,764,900,000
In circulation	3,124,000,000

It will be seen that the value of one year's products of agriculture, $7,412,000,000, in the United States, is more than all the gold money of the world.

The gold outside of the currency system has no effect upon the value of other property, and therefore should not be considered.

The value of money in any country is determined by the amount existing. That commodities would rise or fall in price in proportion to the increase or diminution of money I assume as a fact that is incontrovertible.

This economic truth is now so plain that he who runs may read. What then becomes of this mere fiction of the mind, that gold is the

standard of value of other things in this country? In other words, how can only $1,489,742,845 of gold in our currency system, containing $2,876,368,696, constitute the standard of values? Anyone with ordinary intelligence knows that if you were to retire the other kinds of currency in our present monetary system prices of all other kinds of property would experience a tremendous fall.

The relative importance of the value of gold and the value of other property is as follows: Total value of gold money in the United States November 1, 1907, $1,489,742,845. Value of other property, $117,304,211,917. Annual average production of gold in the United States, $83,000,000. Annual average production of value of other property, $3,400,000,000.

Page 89, Report of the Director of the Mint: The coinage of gold of the mints of the world, outside of the United States, from 1900 to 1906, when figured out, averaged only $211,312,448 a year.

The balance of trade due the United States by the outside world in 1907 amounts to $446,489,653, which would buy their total coinage of gold and leave them still in debt to us $235,177,205 a year.

To show the relative importance of our internal commerce and our foreign trade, I would call especial attention to a report from the Department of Commerce and Labor dated December 14, 1907, as follows:

Internal commerce, United States, 1907 (estimated)	$25,000,000,000
Domestic exports, fiscal year ending June 30, 1907	1,854,000,000

The above comparison is made to clarify this subject, as our statesmen and business men have attached so much importance to this international trade or foreign commerce idea that they seem to think the whole American system must be made to conform to it. It is a case of looking so hard at the fly on the barn door that we can not see the barn door, or of the tail wagging the dog.

To emphasize this fact, compare the relative positions financially of these countries and the United States, and ask which should dominate the future business of the world.

1904-5.	Population.	National debt.	Per capita debt.
Great Britain	43,217,687	$6,196,038,685	$139.52
France	38,961,950	6,963,953,193	172.48
Italy	33,476,120	2,490,955,026	79.98

Page 218, Special Report of the Census, 1907:

Measured by national wealth, or the ability to raise revenue, the public debt of the United States is only 27.1 per cent of that of Great Britain, 20 per cent of that of France, and 16.4 per cent of that of Italy.

Page 2, Statistical Record, Department of Commerce and Labor:

1904. National wealth of United States	$107,104,211,917

Page 33, Special Report Census:

Estimated increase to 1907	10,200,000,000
Total to 1907	117,304,211,917
1907. Internal commerce annually	25,000,000,000

	Population.	National debt.	Per capita debt.
1907	85,593,308	$878,596,755.08	$10.26

We find the following statement on page 33, Special Report of the Census, 1907:

Without financial panics or other disturbing factors, the figures reviewed would indicate that the census estimate for 1910 if taken on substantially the same basis as the estimate for 1890–1900, and 1904 will show an annual average per capita accumulation of wealth from 1904 to 1910 of not far from $40.

This would amount to $3,400,000,000 annually.

The taxpayers and those producing this wealth would like their representatives in Congress, to whom they pay annually an aggregate of $3,585,000 for their services, to study this statement and give them an American money system made up of real dollars as authorized by the Constitution, regardless of any other country on earth, and not in the interest of short-sighted banking associations who desire to handle the money of the country and control it as far as possible in order to make the most money out of it for themselves. I hardly think their best friends would call them philanthropists, running banks in the interest of the people.

On the other hand, Congress is paid by the people to look after their interests and not the interests of banking associations. Thus the question becomes an individual responsibility upon every representative of the people in Congress, and not a matter to be settled by a few men on the Finance Committee of the Senate in consultation with banking associations.

What the people expect of Congress is a permanent increase of full legal-tender dollars to sustain $117,304,211,917 of national wealth produced by them, and to carry on $25,000,000,000 of internal commerce. They fully realize that a crazy-quilt currency made up of $1,489,742,845 of gold, and only $574,459,086 of that in circulation as real money, and the balance of $1,386,625,851 in outstanding obligations redeemable in gold, can no longer support the tremendous development of this country. It is a condition and not a theory that now confronts the owners and producers of wealth in this country, and the dominant party that shirks the issue will be held responsible for the results.

To demonstrate the actual necessity of this, the following conditions are set forth: The total amount of money of all kinds in the currency sysem of the United States November 1, 1907, was $2,876,368,696, a little over 2 per cent of the national wealth of $117,304,211,917, the value of which it is expected to measure and sustain as well as carry on $25,000,000,000 of internal commerce; and, in addition, measure and support the value of the immense issues of bonds and stocks of the corporations of the United States. Those under the head of "Industrials" alone, listed on the New York Stock xchange, and not including railroads, amount to over $8,000,200,941. Those issued on the steam railroads are estimated at 14,765,178,704, making a total of $22,966,119,704. This does not include the innumerable corporations issuing bonds and stocks throughout the United States. In addition to the above we have the following demands

upon this stock of money from the depositors of same in national banks, trust companies, and savings banks in the United States, as per last report of the Comptroller of the Currency for 1907, amounting to $13,099,635,348. This does not include deposits in building and loan associations.

It would be easier for a sensible man to believe all the tales of the Arabian Nights than to think that $2,869,074,255 of money (and by construction of the Secretary of the Treasury, about one-half of that only promises to pay another kind of money) can any longer carry on the business of this country and sustain values.

Based upon the $40 per capita of France, a country that has not half the need, demand, or wealth to redeem her money in as the United States, yet the only country in the world free of panics, we should have based upon our present population, December 1, 1907 (86,666,000), $3,466,640,000, or an increase of $590,271,304 in our currency system.

The taxpayers now ask their representatives in Congress to get together and give them a plain square deal on this money question stripped of all its sophistry, and to settle it right and allow the legitimate business of the country to go on uninterrupted by speculations in stocks and bonds by the nonproducers in the stock exchanges, in conjunction with the banks in the large cities.

The power to create money rests entirely with Congress as placed there by the people, and if the people are responsible for these dollars they want them issued direct, as perfect money units, and not indirectly as promises to pay through banking associations with the right to retire them whenever they find it profitable to do so.

After the present painful experience they are opposed to having this power to issue currency turned over to any system controlled by money lenders and capable of being used as an india-rubber money, under the attractive title of an elastic currency. [Laughter.]

This country has not stopped growing nor has it exhausted its boundless resources. What the people want is more money permanently in the currency system, to be steadily increased as wealth accumulates and the population increases, and not an emergency, elastic, or champagne circulation to bring about a tipsy prosperity, so enjoyed by frenzied financiers, who make fortunes on paper and add nothing to the national wealth, yet coming to a sudden end at any time and absolutely stopping the progress and prosperity of the whole country (now adding to its wealth $3,400,000,000 a year).

In opposition we hear men, calling themselves statesmen, hiding their assumed ignorance behind such expressions as "We must not issue 'fiat money'"—a term without meaning when applied to the material question of an American dollar issued by the sovereign power of the United States with $117,304,211,917 of national wealth owned by the people, who are adding to the same at the rate of $3,400,000,000 a year, and doing $25,000,000,000 worth of internal commerce annually, pledged to redeem them, every dollar being a universal order on all things on sale, all services for hire, and the ultimate of payment for all debts in the United States. Is there a sensible man in this the twentieth century who will stand up in the American Congress and say that he would rather have a promise to pay a dollar issued by a bank, secured upon a segregated asset of a corporation, called a bond, than a full legal-tender dollar redeemable in all the property of the

people of the United States? If a full legal-tender American dollar is called "fiat money," by a parity of reasoning the same statesman would call a United States Government bond a fiat creation, although both have squarely back of them all the assets of the United States and the plighted faith of the American people. Any man calling himself a statesman who can not rise above politics on such a vital question, but who resorts to sophistry and subterfuge, would properly belong to the class characterized by Adam Smith, "That insidious and crafty animal, vulgarly called a statesman, or politician, whose councils are directed by the momentary fluctuations of affairs;" or described by Buckle, "Such men are at best only the creatures of the age, never its creators; their measures are the result of social progress, not the cause of it."

Mr. WEEKS. It was suggested that it was desirable to hear from men of all classes on this question—not bankers alone, but other business men—and I would like to ask Mr. Daniel what his business is?

Mr. DANIEL. If you will allow me to be a little personal, I will say that I started out, after the war, from Fredericksburg, Va. I lived in New York for quite a time and also traveled as general salesman for one of the largest commercial houses there—Tefft, Weller & Co.—who did a business of $15,000,000 a year. In looking over the situation, always keeping this money question before me, I came to the conclusion that the best way to make money was to buy some cheap property near the capital of the United States and let its growth enhance its value. For about twenty years I have been in Washington, and I have now arrived at a point where the increase in the value of my property is sufficient to enable me to pay some attention to the interests of the people at large.

Mr. WEEKS. You are a capitalist, then?

Mr. DANIEL. I do not claim to be a capitalist because I do not want to arrogate to myself any of the qualities that go along with that position.

Mr. WEEKS. You belong to the leisure class of the United States?

Mr. DANIEL. No, sir; I am in the real estate business, and I have been, and am right now, in touch with pretty much everything that is going on.

That is all I have to say. I have no interest in this matter beyond the fact that there are 86,000,000 people in this country who have a great deal of property and who are working very hard for it, and they have built up a civilization. They have more wealth than all the rest of the world practically put together, and it is time that they should have something to say about the question. I am simply presenting a brief in their interest.

Mr. GILLESPIE. Have you any remedy that you can suggest?

Mr. DANIEL. Yes, I have; but I do not think it is time to promulgate it yet.

Mr. CRAWFORD. Your suggestion is to increase the circulating medium by the issue of legal tender greenbacks?

Mr. DANIEL. I have stated it plainly. We want real money. Do not disturb present conditions, but put more real money in circulation.

The CHAIRMAN. What do you mean by real money—United States notes?

Mr. DANIEL. I mean the actual money.

The CHAIRMAN. United States notes?

Mr. DANIEL. It can not be anything else. Under the Constitution of the United States you can only issue one kind.

Mr. CRAWFORD. Do you think, with a gold reserve in the Treasury amounting to a total of three hundred and forty-six millions, that it would stay at par?

Mr. DANIEL. It would have no effect on it at all.

Mr. GILLESPIE. Do you mean to issue United States notes, making them irredeemable, or redeemable in gold, or how?

Mr. DANIEL. When you put out a perfect circulation unit in the country, it is not supposed to be a thing that is retired. It circulates and stays out.

Mr. GILLESPIE. I wanted to know if that was your idea—the issuing of irredeemable paper money by the Government?

Mr. DANIEL. Not irredeemable money, but redeemable in everything, backed by the national assets of the Government and people.

Mr. GILLESPIE. But if it is not redeemable, why have assets back of it?

Mr. DANIEL. For instance, when the Congress of the United States, representing the American people, isues a dollar, it is by my consent that I take it in payment for any property I have or in payment for any service I render, and it is a thing that the American people accept and agree to redeem not only now, but for all time. That is a perfect money unit.

Mr. WALDO. You have got to have it redeemable in gold, though.

Mr. DANIEL. Not redeemable in any one thing, but everything.

Mr. WALDO. I mean to do business with any other country on a gold basis.

Mr. DANIEL. We do not need that. We have only had a difference of about forty-seven millions in seven years in exports and imports of gold.

Mr. WALDO. But you have got to fix that some way, have you not?

Mr. DANIEL. I am glad you have asked that question. When I was in England I went down, for instance, to the Morgan bank, and I handed in a $100 American silver certificate or Treasury note, and I got a premium on it—something like $1.50 or $1.75. I went over to Belfast and bought $175 worth of linen there. I handed my money into the bank at Belfast and got a premium on it. Last summer I was over in Italy, and they are crazy after American money. They will tell you it is the best money in the world. They do not question it for an instant. Why, the influence of this country to-day is the most potential in the world, as demonstrated by the fact that they are paying us a premium on money right along without regard to whether it is gold or silver. Why do they need it? They need $446,000,000 of it to settle the balance of trade with us every year. They need it to pay for $1,854,000,000 of stuff—necessaries of life, most of it. They can not get along without it.

I stopped off at the Straits of Gibraltar and got all my foreign money changed into American money, and of course to get American money I had to sacrifice quite a discount. The fellow gave me a whole lot of nickels. A party got on at Gibraltar with a lot of grapes. Two or three Spaniards were standing around, and I took out five of these nickels and handed them out for the grapes. This

fellow looked at it for a while and turned around to his partner and said, "What about that?" The fellow said, "That is American money; the best money in the world."

That is the universal thought. Why? Because we have $117,-000,000,000 of national wealth, with the best things in God's world to reinvest the money in. Railroad bonds and everything are here to redeem it in this country; as good as can be found anywhere.

Mr. WEEKS. Did you say you were paid a premium on American money?

Mr. DANIEL. Yes.

Mr. WEEKS. Where?

Mr. DANIEL. In London and in Belfast.

Mr. WEEKS. Who paid it?

Mr. DANIEL. Cook paid it in Belfast and the Morgan bank paid it in London.

Mr. WEEKS. How much premium were you paid?

Mr. DANIEL. I think I got 6 shillings on the $100. That was about $1 and——

Mr. WEEKS. Was that in gold or bank notes?

Mr. DANIEL. Both. Most of it was in gold.

Mr. WEEKS. The payment was made indiscriminately?

Mr. DANIEL. Yes.

Mr. WEEKS. And a premium was paid on it?

Mr. DANIEL. Yes.

The CHAIRMAN. In London?

Mr. DANIEL. In London. I tell you it is a fact that there is some exaggeration about that idea of gold being the necessary thing. It took me a long time to reach this conclusion. I was timid for four or five years about taking this position, but I find that I can not, as a sensible man, take any other position.

The CHAIRMAN. Is any other gentleman to be heard to-day?

Mr. DANIEL. I want to say, gentlemen, that I am very much obliged to you for the opportunity of being heard. I thought I had better come before you, as so few people do come. I want to compliment any man who has given time and thought to this subject, because few people have; but it is such an important thing that it is high time the American people should take it up and thrash it out.

The United States Government should kindly request the banking corporations to cease to occupy the middle of the economic or business stage of this country. The power to issue money is a sovereign function of government and through money the value of trade, commerce, and property is regulated. It is therefore of the first importance that banking corporations should be confined to their legitimate business as lenders of money owned by their depositors and not be allowed to control the measuring medium of property.

The Constitution of the United States does not contemplate the Government going into the banking business to loan money to individuals or corporations, or that the banks should ever go into the governing business by issuing or controlling the supply of money and regulating the affairs of the country. It is plain from the action of the banks in the panic of October, 1907, that they need no guardian to look after their interest. They simply stopped paying their depositors, issued them clearing house certificates and scrip, held and hoarded all the money of any kind they could obtain. They ceased

to make loans, but demanded money on the loans outstanding, and asked larger curtails on negotiable notes with renewals for only thirty days and increased the rate of interest on call and time loans. The effect being to instantaneously stop the progress of business, causing infinite distress and irreparable loss throughout the country. Thus the magnificent procession of business is stopped, its step reversed, depression takes the place of prosperity.

Not being able to use the old excuse of the country being overstocked, as the cause of this panic, the wiseacre economists, getting their wisdom from the superficial financiers, say we have overtraded. The fact is well known that the demand for everything, as well as money, is beyond the supply. Such a prosperous condition in the country generally is the underlying reason for the people standing the strain as well as they have.

In the meantime money goes up in value, causing a great depression in the value of other property, thus putting those in possession of money in position to take advantage of the misfortune of others. It is an open secret that the funds of most of the banks in the large cities are controlled by inside rings, composed of officers of the banks, who farm out the money to the best advantage to themselves as well as that of the banks. While the hoarding process goes on the little interest lost in dividends to the stockholders does not amount to a drop in the bucket compared to the immense profits made by these men out of forced sales that they take advantage of.

The effect of this fall of prices upon the whole country is a hundred per cent worse than the immediate loss. It is human nature to hold on to the thing that is going up in value—money—and let go of the things that are consequently going down; this intensifies the situation, making the inadequate supply of money that causes the panic scarcer still.

Superficial observers complain during this condition that the people are hoarding their money. As a matter of fact, in the present panic the Comptroller of the Currency in his last report states that the banks are doing most of the hoarding.

There never was a panic that hurt the owners or controllers of money; such conditions are a harvest for them and offer a premium on money (and meanness). The only cure for this condition is an adequate addition of money—so as to arrest the general fall of prices: as soon as this is done money will seek employment.

If the business of a country develops and commodities increase, and the amount of money remains the same, it is contraction in the worst form, because to take care of the increase of property and wealth a credit system of promises to pay, checks, etc., is built up so high that it is obliged to break down for the want of a broader foundation or more money to sustain it.

The United States should steadily increase in business and wealth, as its resources are practically unlimited and supply everything necessary to the human family. It can therefore be stated as an economic fact that a scarcity of money in such a country will always cause panics, while a sufficient amount of money to keep pace with its growth, increase of wealth and population will bring a prosperity that will continue indefinitely.

If purchasing power was commensurate with the productive power of the people of this country we would have a continuous prosperity

and an increase of national wealth that would be the admiration of the world. As it is, purchasing power can only be obtained through the command of money or its representatives. As long as this money consists only of a scarce commodity, in itself absolutely inadequate to perform the service expected of it, the break between productive power and purchasing power can not be filled up.

Jonathan Duncan recognized the real nature of such a crisis. We have shown that in the natural state of things production can never exceed consumption, and that what is called overtrading in goods really means the underproduction of money. It means that more commodities are brought to market than can be distributed, not because people do not want them, but because the instrument of distribution is incommensurate. If the wharves of a maritime port were chocked up with goods which another country desired to possess, as, for instance, corn at New York needed in England, but that there were insufficiency of ships to freight the corn to London or Liverpool, it would be very illogical to say that the Americans had overtraded in the production of corn; the case would be one of underproduction of vessels, manifesting the absence of the instrument of distribution.

A railway station further illustrates the argument. If there were more passengers than the train could carry, the directors, looking to their own interest, would not insist that the passengers were excessive, and complain of overtraveling, but decide that the means of conveyance were inadequate, and at once increase the number of cars and locomotives. The question, then, amounts to this: Would there be any glut of produce if money were permitted to increase as fast as produce increased? But we may certainly answer this question in the negative, and the answer subverts the whole of Mr. Lloyd's theory. Whence arise the convulsion, pressure, and stagnation which Mr. Lloyd pronounces inevitable, and as certain to recur periodically in established cycles? Surely not from the reluctance of hungry people to consume food, or from the refusal of people in rags to wear warm and decent clothing; yet we are told all the evil proceeds from the fact of those very people having been too industrious; they have overtraded, they have created too much, and the penalty is famine and nakedness. Under this theory, the conditions of the productive classes is truly pitiable; if idle, they are treated as rogues and vagabonds; if industrious, they are deprived of bread.

We speak of overproduction of clothing in a world in which millions have not half as much clothing as they need.

"Too many shirts? Well, that is a novelty in this intemperate earth, with nine hundred millions of bare backs," says Carlyle.

This panic has given the financial rigors to all the bankers; they realize that with only $2,876,368,696 in the currency system of this country and only $1,679,853,760 in actual circulation they had to take care of over $13,099,635,348 owed to their depositors and at the same time provide the money necessary to carry on $25,000,000,000 worth of internal commerce. It is safe to say that if the country had not been in a prosperous condition, and the American people in a pleasant frame of mind, half the banking institutions in the country would have been closed or in bankruptcy caused by an angry and outraged people demanding their money.

Let this occur again under different conditions and a general panic seize the people; it will spread like wildfire through those having on deposit $13,099,635,348 in the banking and saving corporations of the country, and if one-fifth of them get their money it will exhaust every dollar in the whole currency system of the United States, or one-twelfth will take every dollar in actual circulation.

After the lesson of this panic, which caused an expose of the utter inadequacy of money to meet demands, it will not be wise for the representatives of the people to deal longer with makeshifts while such serious conditions confront the people at large.

As we are living under a written constitution, and the will of the people is the supreme law of the land, in contradistinction to all other forms of government, it is useless to copy or imitate banking or currency systems of any other country. If it were not out of place it could be shown that the money lenders and banking systems of the old world have caused more poverty and prolonged suffering among the people than war. I have visited these countries in recent years and studied their conditions from a financial and economic standpoint, and will say we want none of their banking systems imported into this country. Their money systems mean the increasing domination of capital over labor, and the enhancement of the value of money.

The great oversight made by the bankers of this country is the tremendous advantages the United States has over the rest of the world in its resources and productive capacity. In cultivating a foreign market for the sale of stocks and bonds they have lost sight of the fact that if we had an adequate amount of money in our currency system, the handling of same by them in developing the tremendous resources of this country would make legitimate banking more profitable than ever before, and create among the people a better market for bonds and stocks than can be found abroad, and the interest on these American securities would be kept at home and deposited in American banking associations.

The American Constitution is the nearest realization in the concrete of the principles of eternal justice ever applied to human government, and this money question should be made to square with the Constitution in the interest of the American people. Banking associations and money lenders should be a secondary consideration. From the days of Aristotle to the present hour all intelligent thinkers on the subject know that money is a creation of law. The vital question now is one of more money to keep pace with the immense growth and development of the country. Therefore it is useless to try to settle this question by discussing it from the premises of banks and promises to pay issued by and controlled by banking associations.

Banks are organized by individuals to handle and loan the money of depositors, not to create money; this is an act of sovereignty, a function of government.

With this fundamental principle of our form of government recognized, as it must be, a sufficient amount of full legal-tender dollars, the best money in the world, can be supplied with mathematical precision to our monetary system. At a great expense our Government has established the Census Bureau, Department of Commerce and Labor, Bureau of Corporations, Interstate Commerce Commission, etc. These departments, in connection with the Secretary of the United States

Treasury, Comptroller of the Currency, and Director of the Mint, can supply all necessary data upon which sufficient addition of money can be supplied and regulated on a percentage basis by the Congress of the United States, according to the increase of wealth, business, and population. Thus the most perfect monetary system could be established ever known to the human family, as it would be in the interest of the whole people, and at the same time a fair standard of value between buyer and seller, and preserve the equity of time contracts between debtor and creditor.

Mr. Chairman, before closing my argument in regard to the questions asked at a previous hearing as to the redemption of the full legal-tender American dollar, a simple illustration may best explain it. A has a hundred-dollar legal-tender note. B has a horse, which A values at $100, and he closes the purchase; the horse redeems the $100 note so far as A is concerned. B then desires to pay a debt of $100, and the hundred-dollar note is then redeemed by the debt so far as B is concerned, and the process goes on ad infinitum, these legal-tender dollars being a universal order for all things on sale, all services for hire, and the ultimate of payment for all debts.

Answering the chairman's question as to prices in Canada being the same as in the United States, am constrained to say he has been misinformed. The general level of prices in Canada is fully 20 per cent lower than in the United States.

To my mind it is a self-evident proposition that the purchasing power of a dollar or money unit is not any so-called intrinsic value in the dollar, but the competition of all men to get dollars, and if the number of dollars do not keep pace with the growing demands for dollars, their value will increase and greater sacrifices will have to be made by the people to get dollars, demand operating against supply.

To deny the quantitative principle in money is simply questioning the law of supply and demand, which is as universal as the law of gravitation.

Since the panic of October, 1907, there had been forced into the currency system a temporary increase of money, viz, the coinage of $10,364,720 of gold in October, $33,840,060 in November, and $12,929,085 in December, 1907. And in addition to this an increase of bank circulation on Panama bonds issued and Government certificates of indebtedness.

The people must not be misled by statements putting the per capita of money at $35 as of this date, as it is only temporary and an unfair way of putting it. To make this plain I refer again to the Report of the Comptroller of the Currency for 1907, page 48:

Of the total stock of money in the country 11 per cent is held in the Treasury as assets, 35.51 per cent is in reporting banks, and 53.49 per cent elsewhere, the per capita not in the Treasury or banks in 1907 being $19.36, or $1.03 less than in 1906.

Owing to the scarcity of money, $112,535,852 in gold was imported into this country, yet only $57,133,865 has been coined into money up to December 1, 1907.

This would make the coinage account stand as follows (letter received by me from Director of Mint January 3, 1908): Coinage executed at the mint during the calendar year 1907, $131,907,490. Deduct amount of this coined up to the ending of the fiscal year,

July, 1907, of $79,622,337.50. We put to the credit of the next fiscal year, 1908, $52,285,152.50.

Although the Secretary of the Treasury and the Comptroller of the Currency both admit there was no lack of warning indications of financial troubles and possible business disaster for the last year or two, and these conditions must have been well known among the financiers of the large banks in New York, with whom these officials of the Treasury were in close business relations, it is therefore passing strange that nothing was done by them to protect the people against such a crisis and the loss of untold millions.

It is a question of more money.

The Comptroller of the Currency admits it on pages 66, 67, and 68:

For at least ten or twelve years there has been an era of advancing prices and great industrial, commercial, and speculative activity in all the countries of the world. Credits have increased and multiplied until the limit has been reached in the amount of reserve money on which they must be based.

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The difficulty in selling bonds has become so great that for several years many of the railways have had to raise money for their necessary expenditures and improvements with so-called short-time notes, instead of regular bond issues, the rates of interest on such issues rising higher and higher and each issue being harder to place. Merchants and manufacturers of the highest standing and credit have found it more and more difficult to secure or renew loans and the rates have risen steadily for months past.

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On October 26 the New York clearing-house banks decided to issue clearing-house certificates for use in the payment of balances, and to limit, if not suspend, the shipment of currency to out-of-town banks. In this the New York banks were followed by those of the other central reserve and most of the reserve cities. The result was to at once precipitate a most serious bank crisis and a famine of currency for pay rolls and other necessary cash transactions. All domestic exchanges were at once thrown into disorder and the means of remittance and collection were almost entirely suspended. Money has been withdrawn and hoarded by individuals, corporations, and even more, perhaps, by the banks themselves, all of whom at once drew and held all the money of any kind they could obtain, often really in larger sums than needed.

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Factories have suspended, workmen have been thrown out of employment, orders have been canceled, the moving of crops has been greatly retarded and interfered with, and exports have fallen off at a time of the year when they should be at their highest. Another result has been a reduction of the volume of the foreign credits available just at the time they are more needed to offset the large imports of gold which have been made.

* * * * * * *

The conditions which led to the panic of October and November, 1907, were not due to the failure of a few individual banks. They were not due to the lack of confidence of the people in the banks, but more to a lack of confidence of the banks in themselves and their reserves. Banks have been fearful that the reserve system would break down, and in consequence it has broken down, and the reserve deposits have been only partially available. They were also fearful that not sufficient money could be supplied to meet the demand, and as they all made the demand at once there has not been sufficient money. The result has been a money famine.

The normal trend of gold is shown by the following coinage of the mints of the United States and the world (p. 15, Director of Mint, 1907) for the fiscal years—

1900	$107,937,110.00	1904	$208,618,642.00
1901	99,065,715.00	1905	79,983,692.00
1902	61,980,572.00	1906	53,002,097.50
1903	45,721,773.00	1907	79,622,337.50

By reference to Statistical Record of the Progress of the United States, Department of Commerce and Labor, page 3, it will be seen there, under head of "Money in circulation," there was no increase in circulation of gold from 1900 to 1907.

By reference to page 81, 1906, Report of the Director of the Mint, we find the "Estimated stock of gold in the United States" for the fiscal years—

1900	$1,034,439,264	1903	$1,249,552,756
1901	1,124,652,818	1904	1,327,672,672
1902	1,192,395,607	1905	1,357,881,186

Director of Mint Report for 1907, page 93:

1906	$1,368,612,051	1907	$1,328,768,271

A net decrease in last fiscal year of $39,843,780.

Report Director of Mint 1907, page 102:

1873 coinage of gold in the mints of the world	$257,630,802
1905 coinage of gold in the mints of the world	245,954,257

After a lapse of thirty-two years a falling off of $11,676,545 in the coinage of gold in the world.

Report Director of Mint 1907, page 2:

1897 coinage of gold in the mints of the world	$437,722,992
1906 coinage of gold in the mints of the world	366,326,788

After a lapse of nine years a falling off of $71,396,204 in the coinage of gold in the world.

Report Director of the Mint 1906. Stock of money in European banks, notes in circulation, December 31, 1905—England, France, Germany, Scotland, Ireland, Austria-Hungary, Belgium, Bulgaria, Denmark, Spain, Greece, Netherlands, Italy, Sicily, Norway, Portugal, Roumania, Russia, Finland, Servia, Sweden, Switzerland—all now designated as gold-standard countries. Total of gold, $1,867,661,000 (decrease from 1904 of $12,352,000); total of silver, $525,153,000 (net decrease from 1904 of $17,370,000). Notes in money systems December 31, 1905, $3,660,245,000 (net increase over 1904, $321,152,000). Now, being so-called gold-standard countries, we must add the silver to the notes, and the total will be $4,185,398,000 of notes to $1,867,661,000 gold. Percentage of gold to other kinds of money in European countries, 44 per cent.

Gold in the United States money system as per last revised report of the Director of the Mint, United States, page 93, for June 30, 1907, $1,328,768,271; other kinds of money, $1,679,473,312. Percentage of gold to other kinds of money in United States, 79 per cent.

Upon the basis of European countries, 44 per cent, the United States based upon the gold in its money system, $1,328,768,271, would be entitled to an increased issue of notes of $1,296,967,615, or a total stock of money in the United States of $4,305,209,198.

Percentage of gold to other kinds of money in France, 51 per cent: Gold, $555,454,000; other kinds of money, $1,088,713,000.

Upon the basis of France the United States would be entitled to an increase issue of notes, based upon its gold money, of $1,164,090,787; or a total stock of money in the United States of $4,172,332,370.

Based upon the banking principle of 25 per cent of cash to credit the amount due depositors in banks, trust companies, savings banks,

and building and loan associations, United States, a total of over $15,000,000,000. Twenty-five per cent of this amount would be $3,750,000,000.

COMPARISON.

After eight hundred years we have the following condition in the United Kingdom, 1904–5: Area, United Kingdom, 121,371 square miles; population, 43,217,687. England's national debt, $6,196,038,685. Gold in banks, public treasuries, $196,400,000; in circulation, $290,300,000; total, $486,700,000, or 7 cents on the dollar of national debt.

France, after eleven hundred years: Area, 207,054 square miles; national debt, $6,963,953,193. Population, 39,300,000. Gold, $555,450,000, or 8 cents on the dollar of national debt.

Now hear the case of the United States of America. Area, 3,624,122 square miles; population, 86,666,000. After one hundred and thirty-one years: National wealth, $117,304,211,917; annual increase, $3,400,000,000. Internal commerce, $25,000,000,000. Foreign exports, $1,853,000,000, and enough gold in the money system to pay off her national debt and have more left over than any other country has in its monetary system.

Upon this showing the American people have the right to demand an immediate increase of money. For thirty-five years they have patiently waited for the Congress to settle this money question upon a logical and sensible basis. They have suffered the results of makeshift legislation resulting in panic after panic. And now they find the magnificent prosperity of this country has been legislated into a financial blind alley, and more makeshift legislation is suggested.

As a practical man familiar with the causes and temporary cures effected by the issue of credit currency, I do not hesitate to say that if the Congress of the United States would authorize the issue of five hundred millions full legal tender American dollars to the monetary system and to be gradually placed in circulation through the appropriation committees of Congress in the same way that the money received from the taxes of the people is again put into circulation, the passage of such a bill would act like magic upon the whole business conditions of the country, and prosperity would be upon us again.

Congress can then take up the question as to the proper amount of money the monetary system of the United States should have to meet its marvelous development.

The CHAIRMAN. Is there any other gentleman to be heard now?

Mr. HAYES. I see that we have Mr. Gompers with us this morning, and I should like to hear from him if he has anything to say on the subject.

STATEMENT OF SAMUEL GOMPERS, ESQ., PRESIDENT OF THE AMERICAN FEDERATION OF LABOR.

Mr. GOMPERS. Mr. Chairman and gentlemen of the committee, I came here for the purpose of meeting a member of the committee, and I have not come prepared to discuss any feature of the financial problem, or to submit any solution. I am free to admit that after

very many years of giving the subject of money and its issuance the best thought and consideration I could, I have not yet solved the problem, even to my own satisfaction. I believe that we must meet the new conditions which confront us as a people and as a nation, and that many old conceptions must give way to new conditions. Yet I can not escape the thought that the provision of the Constitution ought to have a little more weight than has been given it in recent years—that is, as to the power of the issuance of money. The delegation of that power to private interests is something that, in my judgment, is not sustainable by the proper interpretation or construction of the constitutional provision that the Government of the United States is the duly constituted authority for the issuance of money. I am not given to haphazard criticism, but this thought that I shall submit in a moment has been with me for many years; and inasmuch as you have asked me whether I have anything to say, and as I am now on my feet, I think I ought to say it. It never struck me as quite the fair thing for the Government to issue interest-bearing bonds, and to permit certain persons organized into an association called a banking institution to buy these bonds from the Government, to receive interest thereon, and then by depositing these bonds with the Government to issue for many years 90 per cent of bills——

Mr. James. One hundred per cent?

Mr. Gompers. Yes; 100 per cent. I said for many years 90 per cent, and recently by, I think, the act of the Fifty-ninth Congress——

Mr. Gillespie. The act of 1900?

Mr. Gompers. Yes; by the act of the Fifty-seventh Congress it was increased, so that to the full face value of those bonds—that is, 100 per cent—by authority of the Government the power is given to these associations and banks to issue bills and to secure upon these bills all the interest and return that can come from them. It has the people, coming and going, paying interest upon these bonds lodged with the Government, and the bank (as if there had been no money transaction at all, and as if it had kept its, say, $1,000,000) receiving the interest and then issuing its original money, or what is equivalent to it, and receiving all the advantages that come from the use of this million dollars.

Mr. Powers. Might I ask you a question right there?

Mr. Gompers. Yes. I will not promise that I shall be able to answer you, however.

Mr. Powers. Do you object to this on the ground that it affords the bank an unwarranted privilege of making money?

Mr. Gompers. Yes, sir. I believe that the bank is entitled to the same interest upon the bond that every other citizen is entitled to receive, but it ought not, in my judgment, as a matter of justice and equity between man and man, as between the citizen and the nation, to have the privilege of using that same money or its equivalent for the purpose of a double profit, that profit being entirely out of proportion to the interest, perhaps, which it receives from the Government.

Mr. Powers. Have you ever taken pains to compute how much, in ordinary times, a bank can make by issuing its money in that way?

Mr. Gompers. No, sir; I have not. Sometimes you people talk about millions and billions, and you make me dizzy.

Mr. POWERS. Is it or is it not a fact that the majority of the banks in this country—I use the term advisedly—declined, many of them, to buy bonds and take out any more of that currency than they are absolutely compelled to, because they can not make a fair profit on it?

Mr. GOMPERS. A fair profit on what?

Mr. POWERS. On the transaction of buying bonds and taking out currency?

Mr. WEEKS. You mean on taking out circulation?

Mr. POWERS. Yes; taking out circulation from the bonds. Do not a great number of the banks absolutely refuse to avail themselves of the privilege of taking out any more than the Government compels them to take out, because there is nothing to be made out of it?

Mr. GOMPERS. Maybe that is true, but it does seem, upon the surface, to be an unfair transaction. Now, let me put it in this way——

Mr. POWERS. Yes.

Mr. GOMPERS. You issue a bond.

Mr. POWERS. Yes.

Mr. GOMPERS. And I buy it.

Mr. POWERS. Yes.

Mr. GOMPERS. You pay me, say, 3 per cent.

Mr. POWERS. Three per cent?

Mr. GOMPERS. Well, say two and something——

Mr. POWERS. But the interest that you get after paying the premium on the bond is one and something.

Mr. GOMPERS. You pay me interest upon that bond, and then I deposit with you.

Mr. POWERS. I understand.

Mr. GOMPERS. And then upon the money with which I buy that bond you give me authority to use an equal amount for the purpose of business transactions.

Mr. POWERS. Now, I want to ask this. The 2-per-cent bond which is principally used for banking now sells for 104½, so that the interest the Government pays to the man is something less than 2 per cent. Now, if I take out circulation on $100,000 of bonds I get $100,000 of circulation. If I am in a reserve city I can loan $75,000 on account of taking out that circulation. The law compels us to keep a reserve of 15 per cent of the money in a reserve city, and 25 and 20 per cent in other cities, behind the circulation that we can not loan. The banks are compelled to pay for the dies and for the printing of the bills and reissuing the circulation, and the interest on the bonds is so small that when you figure it up, in my judgment, there is no money in it. Every bank that I am connected with but one——

Mr. GILLESPIE. There is no reserve required against the notes. It is a 5-per-cent redemption fund.

Mr. POWERS. Yes; and every bank that I am connected with but one utterly declines to take one particle more than they are compelled to. The law compels us to take out a certain amount, and that we take. There is no money in it.

Mr. JAMES. I would like to suggest to Governor Powers and to Mr. Gompers that these bonds that they purchase from the Government are exempt from taxes—State, county, and municipal.

Mr. POWERS. If they were taxed the tax would be more than all the interest, I believe. I think, Mr. Gompers, you will find if you investigate that there is no bonanza of wealth for the banks; that the fact

that they are compelled to buy a certain class of bonds and to pay so high a premium to get them, that they get so little interest, and then have to keep a 5 per cent reserve against them, and pay all the other incidental expenses, leaves no great bonanza for the banks.

Mr. GOMPERS. But the opportunity of turning the money over and over again——

Mr. POWERS. The banking act compels us to purchase these bonds and to take out circulation, and the object of that, when that banking act was passed many years ago, was to furnish a means whereby the Government could fund its debt, and could take care of its debt; and hence this national-banking system that we now have was created for a twofold purpose. One object was to give currency that would be sound, and the other was to enable the Government of the United States to care for the debt; and hence all banks organized under it were compelled to buy bonds and take out a certain amount of circulation. They are compelled to do it, and I apprehend that many banks to-day would not take out a dollar if they were not compelled to.

Mr. GOMPERS. In other words, there is much less advantage than is popularly supposed?

Mr. POWERS. Very much less.

Mr. GOMPERS. But there is no question of its absolute unfairness, and I think it is an improper course.

Mr. POWERS. I think there is a question about that.

Mr. GOMPERS. I would like to take the position of the Yankee, who, when asked a question, turns questioner.

Mr. POWERS. Certainly.

Mr. GOMPERS. A few weeks ago I took occasion at a public gathering to say that whoever might be charged with the responsibility for our money panic, I thought I was right in claiming that no blame of that character could be laid at the door of the working people of the country; and I would like to know——

Mr. POWERS. I think it was a rich man's panic, myself.

Mr. GOMPERS. I would like to know whether in the judgment of the gentleman I was right?

Mr. POWERS. I think it was a bankers' panic.

Mr. GILLESPIE. Did you not advise the laboring people not to withdraw their deposits?

Mr. GOMPERS. Yes, sir. I not only advised them not to withdraw their deposits from the institutions in which they had any savings, but I advised them if they had any hoarded at all to deposit it. I felt it was safer in the financial institutions of the country than in the home, or in the safe-deposit companies. An officer of one of our great trade unions, Mr. Perkins, the president of the Cigar Makers' International Union, perhaps one of the richest organizations of labor in America, was asked what the local officers of the unions should do in regard to the present financial situation. I ought to say that through a magnificently devised system of finance in that organization the funds are held under a dual condition or system.

The entire fund of the organizations throughout the continent of America is the joint property of every member of the organization on the continent; that is, it is one fund, and yet it is held in the local treasuries subject to the direction of the duly constituted officers of the organization, based upon a system of safeguards that have been

proven to work out excellently. Many of the secretaries wrote in to the office of the president of that organization asking what should be done and whether the various local unions, throughout the country, ought to withdraw their funds. His answer was "let the money be where it was before this panic came upon us."

That is not the mere passing statement of a man without responsibility. Here was an executive officer of an organization with over four hundred branches throughout the United States and Canada and Cuba and Porto Rico, telling the men intrusted with the financial affairs of the organization to keep the money where it was and not to withdraw it; that it was better to take the chance, and that it would be helpful in tiding over the awful stringency, while on the other hand the withdrawal of it would simply accentuate it. So that has been the policy all the way through. I do not know of any union workmen, as individuals, who, if they had a dollar deposited anywhere, withdrew it. As a matter of fact, these men in the labor unions discuss finance sometimes; they discuss economics; they discuss the history of nations, and the policies of parties. They do not act simply upon their own judgment, each one for himself, but the judgment obtained is the majority opinion; not by actual vote, but by the judgment expressed. A man who has an opinion brings it up before a local organization and it is discussed in open meetings, perhaps public meetings, mass meetings, and there is a degree of interdependence, a degree of higher education as to a man's duty to his fellows, that is not possessed by the nonunion man, whom I have never denounced, but whom I have criticized for his lack of judgment; who, being outside the pale of the organization, wants to reap all the benefits that organized efforts have secured, yet does not want to share any part of the responsibility. As a consequence he is uninformed, comparatively speaking; and he has no conception of his duty to his fellow-man.

I find that I am really talking before the committee. It was not my intention to do so.

Mr. WEEKS. I want to call Mr. Gompers's attention to one other matter in connection with the issuing of circulation, because the statement he has made is one that is very often made, and one which I think is not justified by the facts. That is, the impression prevails that banks make a large profit in issuing circulation. Governor Powers's statements would indicate that that is not true; but there is another point in connection with that: The banks hold about seven hundred millions of 2 per cent bonds. If those bonds were selling upon the market, if the banks were not obliged to buy them, they would sell on about a 3 per cent basis—I mean, assuming that they bore the same comparative value to other Government securities. That seven hundred millions of bonds on a 3 per cent basis would cost the Government seven millions more a year than they do on the 2 per cent basis. In other words, the fact that the banks are obliged to buy those bonds, or a large percentage of them, under the law, enables the Government to save about seven millions a year, which is saved to the people, of course. That is something that is not generally taken into consideration in connection with this question of the banks issuing circulation and making money out of it. As a matter of fact, they make about one-half of 1 per cent—one-half to three-quarters of 1 per cent—on circulation in normal times, and they take their chances on

losing on the principal, on the price of the bond; for they buy it at 105, perhaps, and sell at 102.

Mr. GOMPERS. I have never yet inquired, and I would like to know, what is the profit either to the Government or the banks by reason of the loss or destruction of money?

Mr. HAYES. The Government gains the full benefit of it.

Mr. GOMPERS. I mean when bills are lost?

Mr. HAYES. The Government gains the full benefit and not the banks.

Mr. MCCREARY. The Chemical National Bank has a capital now of $3,000,000, as I understand. They have only taken out $50,000, the very minimum of bond circulation; and that shows, you know, that the banks themselves do not figure that there is any benefit in it or any profit.

Mr. WALDO. They never issued any of it?

Mr. MCCREARY. They never issued a cent of it. They hold $50,000 of Government bonds, so as to conform to the law. They come under the banking act, but they have not issued any circulation.

Mr. POWERS. Is it not a fact that very many banks take no more than they absolutely have to?

Mr. MCCREARY. That is one trouble with the issuance now.

Mr. HAYES. Along that same line I want to suggest, Mr. Gompers, that it seems to me the matter is fully settled by this consideration, which I guess nobody will deny, that the national banks of the United States at this minute could take out something like $300,000,000 more circulation than they have just by presenting the bonds and requesting it. If there was any profit in it for them do you not think they would be sharp enough after it to do that thing?

Mr. GOMPERS. Well, they have the reputation of being.

Mr. MCCREARY. The bonds got up to 109, and 107½ asked, and sold at 107, and they are down now to about 104 and 104½. So that is, of course, an element to be considered in bond circulation.

Mr. GLASS. Mr. Chairman, if we are here to devise a currency system or to correct the deficiencies of the present currency system, would it not be pertinent to inquire if the facts stated by Governor Powers and these other gentlemen here do not in themselves discredit the present currency system that we have?

Mr. HAYES. I think they do. I agree with you.

Mr. GLASS. Is it not a fact that the Government bonds, by reason of this miserable system we have, acquire a fictitious value, and that for that reason the banks do not take out circulation enough to transact the business of the country?

Mr. POWERS. One of the principal objects, in my judgment, of the banking bill, as formulated by the Secretary of the Treasury, was the 10 per cent tax on issuing bank bills from States. The object of the bill was to afford a place where the Government could fund its debt, and could get rid of its debt, and I want to say as to that that it has worked, and they have builded better than they knew. As to that, it has worked admirably. It has enabled the Government to refund its debt a number of times, upon a lower rate of interest, until, owing to the fact that the bonds have become necessary for banking, our Government has borrowed and is borrowing to-day at a much lower rate than any government in the world.

Mr. GLASS. And at the same time has created a condition of prostration in the industries of the country.

Mr. JAMES. One advantage which the national banks have, which you did not touch upon, Mr. Gompers, is that the Secretary of the Treasury has been depositing many millions of surplus gathered from the people by taxation in the various national banks, and no interest charge at all has been paid for the use of the money; and that is an advantage of no mean importance.

Mr. POWERS. I want to say right here that I hope somebody will bring in a bill charging 2 per cent on those deposits. I want to vote for it.

Mr. JAMES. In the Fiftieth-eighth Congress an amendment of that character was presented, and it passed the Committee of the Whole, but after that was done the majority did not see fit to move or report to the House.

Mr. CRAWFORD. Mr. Gompers has made a speech now, and of course we are interested in it. I would like to ask whether or not, as a representative of the labor organizations, he has any suggestions to make as to remedial legislation?

The CHAIRMAN. I do not know whether he came prepared to speak, or whether he would want to come at some future day.

Mr. GOMPERS. Perhaps I might do that.

The CHAIRMAN. That would give him a chance to think it over.

Mr. GOMPERS. As the chairman knows, I did not come with the anticipation of appearing before the committee. In fact, I was not aware upon my entrance into the room that the committee was in session this morning.

Mr. WALDO. The main thing is this: This committee wants to hear from representatives of labor, and from every other interest in this country, any suggestion which they have to make that they believe will improve the present currency sytem. That is what we want. If you will do that sometime I would like to have you do it.

Mr. GOMPERS. I will do the best I can. I am a very busy man. I do not know that there is any busier man anywhere. I do not suppose anything that Congress can do will be the acme of perfection. You can not help it. All of us have our weaknesses and our strength. We are not in ourselves perfect, and as an aggregation our imperfections may come out still more strongly; but I think it is desirable that something be done to prevent these constantly recurring financial disturbances. In this instance the panic of 1907 stands out conspicuous from every other financial or industrial panic from which our country and our people have suffered.

The CHAIRMAN. In what respect? Point it out.

Mr. GOMPERS. Because at no time did the financial panic strike the people when the people were so prosperous in industry and commerce, and with all the advantages that come to modern civilization. Our people were working and producing the things that we needed upon which to live, and the things that contributed a little to the luxuries. And in the midst of it all, when we were working like bees in the hive, when we were producing the wealth of the country, with the means of transportation of this wealth, and with the wonderful development of the transmission of information, that ought to have circumvented and prevented any reaction in industry and commerce, the financial flurry came. I do not know whether the gentleman who addressed this

committee this morning knows of a little of the inside history of that five-million loan that was expected to come into the Knickerbocker Trust Company in New York and the thing that interfered with the making good of that money. I do not know that I want to repeat it. I do not think I would want it to be spread on the record. That is the only reason.

Mr. CRAWFORD. Have the laboring people with whom you have been connected been injured very materially by the panic?

Mr. GOMPERS. Yes, sir; and after I have finished the thought I want to express I shall be glad to answer that question. With this wonderful productive power, with the genius of the people of our country to produce and to produce abundantly, with the richness of our soil and the fertility of our lands—with all these things, overnight we are struck a blow, and the blow is my answer to the gentleman; and that is, that a large number of establishments have closed down or reduced their force, and men willing to work, able to work, through no fault of their own, and I might say as a matter of fact through no fault of the employer, perhaps, are thrown upon the streets in idleness, with all the misery that that entails. Yes, we have suffered. I receive reports at my office, the office of the American Federation of Labor, from all parts of the country and from other countries. I have selected about eight or nine organizations of labor, from which source a chart is drawn giving the exact number of the unemployed. The reason I say I have selected eight or nine is because the organizations that I have selected have established the best method to obtain absolutely accurate data as to state of employment, and these charts I publish, as the editor of the American Federationist, in that, our official journal. I publish that monthly, with a comparative chart of the same month of the previous year. This plan has been conducted for about ten years. The information upon that chart, showing the state of unemployment, is absolutely accurate. The organizations have established, for instance, a system of the payment of a certain benefit by reason of unemployment, the remission of dues to the unemployed members, and these reports must be made from the various local unions to the national head, and these are in turn reported to me upon the payment of the benefits to the unemployed.

Mr. CRAWFORD. About what per cent have lost employment?

Mr. GOMPERS. I can not tell you offhand. I could tell you by consulting the figures. The figures are not of my own origination. They are reported to me, and I have them figured out so as to produce the chart and the proper percentage.

Mr. WALDO. Have you any approximate idea as to how many thousands there are out of employment now?

Mr. GOMPERS. No, I could not tell you; but it is tremendous. There is one thing I wanted to say. I suppose this is a very peculiar statement to make before the Committee on Banking and Currency; but I think that the attitude taken by the organized workingmen of the United States, and followed by the workingmen of the country generally—because even the unorganized concede the hegemony of the labor movement to organizations of labor—has helped this country to a greater and more marked degree than is recognized at this time. During previous eras of financial panic men were laid off. One of the first things that an employer would resort to was a reduction in

wages. The workingmen were poorly organized, if organized at all, and had no power of resistance, and they were easy marks. They had to yield. Their yielding simply reduced their consuming power, the power of consumption of things produced, and to that same extent threw out of employment more men. Wages were constantly reduced, and it was nibbling, nibbling at wages, with one employer competing with the other employer and nibbling the wages until they were forced down to a lower standard of living and until the reaction would come. We have said that that is not the way out; that to reduce wages is false economy. It is simply prolonging and accentuating the period of depression. By maintaining the wages of the employed it prevents the further accentuation of the panic or industrial crisis produced by continually reducing the power of consumption of the great mass of the people of the things produced. I just want to leave that thought, even though it may not be germane to the solution of your problem.

(After an informal discussion among the members of the committee, the committee adjourned, subject to the call of the chairman.)

[Washington Post, Sunday, November 3, 1907.]

LABOR IS ASKED TO AID—MR. GOMPERS SUGGESTS PURCHASE OF GOVERNMENT BONDS TO RELIEVE STRINGENCY.

Samuel Gompers, president of the American Federation of Labor, issued the following statement yesterday relative to the financial situation:

"Of course we all realize that there is stringency of the circulating medium—money. That is, there is an insufficient amount of currency to carry on the enormously increased production of the past year and the means for its general distribution. This condition has been manipulated by the so-called financiers. The whole entire 'financial flurry' of the past two weeks is nothing more or less than a gamblers' panic.

"In my judgment, labor and civic organizations which have money in safety-deposit vaults would do a world of good to defeat the gamblers' scheme by helping to relieve the bona fide business world if this money were withdrawn and invested in United States Government bonds.

"At the same time, it is urged upon all employers of labor not to attempt false measures of supposed relief of the present situation by wage reduction. In similar financial situations in the past such a policy has simply resulted in making conditions worse and more acute, and prolonging them. There is neither necessity nor wisdom in reducing wages as a way out of the situation. Moreover, labor will not tolerate it."

HEARINGS

ON THE

McKINNEY BILL

H. R. 15262

STATEMENT OF

MR. W. V. COX

OF WASHINGTON, D. C.

AND

MR. JOHN L. HAMILTON

OF HOOPESTON, ILL.

MEMBERS OF THE AMERICAN BANKERS' ASSOCIATION

COMMITTEE ON BANKING AND CURRENCY

U.S. HOUSE OF REPRESENTATIVES

JANUARY 31, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

(APP A)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday, January 31, 1908.

The committee met at 10:30 o'clock a. m.

Present, Representatives Prince (acting chairman), Powers, McMorran, Weems, McCreary, Hayes, Weeks, McKinney, Pujo, Glass, Gillespie, James, Crawford, and McHenry.

Present also, W. V. Cox, esq., John L. Hamilton, esq., Hon. E. J. Hill, Representative from Connecticut, and others.

STATEMENT OF W. V. COX, PRESIDENT OF THE SECOND NATIONAL BANK OF WASHINGTON, D. C.

The ACTING CHAIRMAN. Mr. W. V. Cox is present and would like to present some resolutions to the committee.

Mr. COX. Mr. Chairman and gentlemen, at a meeting of the——

The ACTING CHAIRMAN. Excuse me, Mr. Cox. Let me ask you where your home is?

Mr. COX. My home is in Washington, D. C. I am president of the Second National Bank of Washington and a member of the currency commission of the American Bankers' Association.

The ACTING CHAIRMAN. Have you been instructed by that association to present some resolutions?

Mr. COX. I have not been instructed, but Mr. Hamilton is also here representing that association, and we will present to you the resolutions that were adopted at Chicago.

The ACTING CHAIRMAN. When were they adopted?

Mr. COX. About two weeks ago.

Mr. HAMILTON. At a recent meeting.

Mr. COX. At the last meeting.

Mr. GILLESPIE. That was the meeting of the currency commission of the bankers' association?

Mr. COX. Yes.

The ACTING CHAIRMAN. I have asked these preliminary questions, Mr. Cox, so that the record will show in behalf of whom you appear and for what purpose.

Mr. COX. The resolutions are in pamphlet form. I do not know that you desire those read, but it might be well to cover this and then let the remarks follow to show the nature of these resolutions. In short, the position taken by the currency commission was this: They did not favor the Aldrich bill, for reasons set forth herein; nor did they favor the Fowler bill, for reasons set forth herein; but they did favor the bill that was favorably reported on by this committee a year ago, when hearing after hearing had been held, that bill to be amended in one or two particulars—first, making it lawful money instead of gold; and second, I think, making it a prior lien.

Mr. McKinney. Giving the notes a prior lien on the assets of the bank?

Mr. Cox. Yes, sir; that is covered now by the McKinney bill, which was introduced three or four days ago. I would ask that this report be made a part of the minutes, and I will go over it if you desire.

Mr. Weeks. Perhaps I ought not to ask this question, if it is not proper to answer it. I would like to know if the commission was substantially unanimous in its report.

Mr. Cox. I understand it was.

Mr. Hamilton. They were unanimous.

Mr. Cox. I was not present. I was sick at the time; but the position that the commission took was exactly what I thought it should take; and I had a letter from Mr. Hepburn, who was the chairman, asking me to go to Chicago to appear for him in the matter. I have also heard from Mr. Talbert, Mr. Forgan, and Mr. Wardrop—all members of the commission.

Mr. McKinney. You have a number of these reports?

Mr. Cox. I have a few of these copies.

Mr. McKinney. Have you enough of them so that you could give a copy to each member of the committee?

Mr. Cox. I will see that all the gentlemen get copies of these. I only had a few, and I brought all I had—a half dozen. I think I gave you a copy.

Mr. McKinney. You gave me a copy; yes, sir.

The Chairman. The stenographer will include in the report of the proceedings, in connection with Mr. Cox's remarks, this report of the currency commission of the American Bankers' Association, made at the meeting held at Chicago Saturday, January 18, 1908, if there is no objection on the part of any member of the committee.

The report of the currency commission above referred to is as follows:

Report of Currency Commission of American Bankers' Association, made at a Meeting held at Chicago Saturday, January 18, 1908.

At a meeting of the currency commission of the American Bankers' Association, held in Chicago January 18, 1908, there were laid before it the Aldrich bill and the Fowler bill. These bills were read section by section and discussed, and their provisions carefully considered. After thorough discussion the commission reported as follows:

ALDRICH BILL.

This bill proposes the issuing of additional bank notes based upon the security of other than United States bonds, namely, obligations of State, city, or county, and first-mortgage railway bonds. It is believed that this scheme is impracticable, unwise, and financially unsound.

I. It is a departure from a safe system of note issues, which has been enjoyed since the foundation of the national banking system; it is a step backward to the conditions which give rise to the issuing of "wild-cat" currency before the civil war, which currency was based upon bonds of a similar description. It may be the entering wedge to the acceptance of undesirable bonds as security for note issues. There are recent examples in the laws of New York State legalizing such bonds for savings banks.

II. The bill would not aid the business public in obtaining loans from banks in time of stress. In its practical operation it would cripple the lending power of the banks. Inasmuch as it is not good banking policy to hold any considerable amounts of such securities in the assets of commercial banks, the banks wishing to take out a new circulation would be obliged to purchase the new

securities or to borrow them. The direct means of obtaining securities not generally held in the assets of the banks would be found only by taking from their cash reserves $100,000 in lawful money, in order to issue notes of $75,000. By this process the bank would decrease its lawful reserves, which form the basis of loans. If the bonds behind these notes were borrowed instead of purchased, it would have the effect of increasing the liabilities of the banks, which is wrong in principle and pernicious in practice. One hundred thousand dollars in lawful reserves would support loans of $400,000, while under the Aldrich bill $100,000 taken from the reserves and invested in bonds, would only permit the lending of $75,000. Thus, in its practical operation, it would seriously impair the ability of banks to meet the demands of the borrowing public.

III. This bill would tend to induce counties and municipalities to enlarge their obligations because a fictitious bond market would be created. It would set a premium upon the increase of local indebtedness, which would be highly detrimental. It should be no part of Government legislation to aid in marketing securities.

IV. The necessity of ascertaining definite information as to population of cities, debt limits, valuation of taxable property, defaults, dividends on railway capital, and all other technical requirements would entail such delays as to make the notes available only after the emergency had passed. A crisis is short, sharp, and decisive, and the Aldrich bill is a remedy offered to a man after recovery or death.

V. The provision of the Aldrich bill to tax such additional notes 6 per cent will make their cost prohibitive. Calculated on a basis of $100,000 of bonds purchased at par, bearing 4 per cent per annum, and estimating the lending rate of money to be 6 per cent, the net loss to banks taking out such circulation would be $2,000 per annum, or at the rate of 2 per cent.

Illustration.

COST OF TAKING OUT NOTES AGAINST PURCHASED BONDS.

$100,000 loanable at 6 per cent		$6,000
Tax at 6 per cent on $75,000		4,500
Total cost		10,500

INCOME.

4 per cent interest on $100,000 of bonds	$4,000	
Loan, $75,000, at 6 per cent	4,500	
Total income		8,500
Net loss		2,000

This calculation does not include loss of interest on redemption fund nor the cost of printing and redemption of notes. When the price of such bonds becomes inflated by reason of their use as a basis of circulation, as in the case of United States bonds, the cost of the notes would be proportionately increased. If the bonds were borrowed instead of purchased, the cost of notes issued would be the same.

Illustration.

COST OF TAKING OUT NOTES AGAINST BORROWED BONDS.

Tax on $75,000 notes at 6 per cent	$4,500
Interest paid for use of $100,000 bonds at 2 per cent	2,000
Total cost	6,500

INCOME.

6 per cent interest on $75,000	4,500
Net loss	2,000

Calculation is exclusive of loss of interest on redemption fund and the cost of printing and redemption of notes.

It is thus proven that should banks be forced to take out these notes, the minimum rate to the borrower would be the actual cost of 8 per cent, independent of any charge for the use of the capital, the expenses of doing business, and the risk of lending. If fair allowance be made for all legitimate charges, the net cost to borrowers would be as high as the prohibitive 10 per cent tax now imposed by the Government on State-bank issues.

VI. The high cost of taking out these notes must obviously be paid by the needy borrower, and in that event the bill must be regarded as a measure operating to tax the customer in a time when he especially requires assistance. Under normal conditions a seasonal demand, arising in the autumn, causes higher rates of interest, while under the operation of the Aldrich bill the charge for currency needed in those periods would be still further increased to the borrower. The enforced rise of interest rates would not only apply to loans effected by the use of such notes, but would at the same time increase the rates on the entire line of discounts carried by a bank, thus imposing a heavy and unnecessary burden upon the agricultural and business interests of the whole community. For these reasons, the commission finds itself obliged to express its disapproval of the Aldrich bill.

THE FOWLER BILL.

After deliberate consideration of all the provisions of House bill 12677, Sixtieth Congress, known as the new Fowler bill, we disapprove it. While it contains certain meritorious features, it introduces schemes so far-reaching in their scope and touching so many collateral interests not germane to the real solution of our currency difficulties that we believe its passage would unsettle rather than improve financial conditions.

Let us not be unmindful of the fact that in response to the demands of the people unsound and radical legislation has had its precedents in our monetary history. After the panic of 1873 the demand for some action with reference to currency was so strong that Congress passed a bill increasing greenbacks by $44,000,000, a project which was wisely vetoed by President Grant. After the panic of 1893 Congress gave its approval to a measure providing for the coinage of $55,000,000 of silver, which was vetoed by President Cleveland, who followed the excellent precedent established by President Grant.

In these two instances we have had examples of hasty measures following financial panics, and in the two bills herein discussed we have what appears to us to be similar unwise measures following the recent crisis.

PLAN OF AMERICAN BANKERS' ASSOCIATION.

The principles enunciated by the commission and approved by the American Bankers' Association in convention assembled at Atlantic City on September 23, 1907, have been at this time carefully reviewed, and we are still firm in the belief that they are economically sound. We have accordingly prepared a plan embodying these principles.

The difference between the original plan of the commission (embodied in House bill 23017, 59th Cong.) and the present plan is to be found in the provision that the holder of a credit note, instead of being a general creditor, shall have a prior lien on the assets of the issuing bank. The notes thus issued would be automatically adjusted in volume to the demands for currency. The security to the notes thus provided by pledging the whole of the assets of a bank would afford more desirable protection to a note holder than a portion of those assets in a segregated form, and such notes can be issued under provisions which will insure absolute safety to the note holder, an ample supply of currency to the public, relief from the disturbed commercial conditions such as those through which we have recently passed, and, finally, the certain retirement of the notes when they have fulfilled their purpose in the hands of the public. The plan proposed by the commission is as follows:

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That from and after the passage of this act any national banking association which has been in business for one year and has a surplus fund equal to twenty per centum of its capital may take out for issue and circulation national bank notes without a deposit of United States bonds as now provided by law. Said notes shall be known as

'national bank guaranteed credit notes.' Said notes shall be issued in such form and denominations and under such rules and regulations as the Comptroller of the Currency shall fix. The amount of said notes so taken out by any national banking association may be equal to forty per centum of the amount of its national-bank notes at any time outstanding, which are secured by the deposit of Government bonds, but shall not exceed in amount twenty-five per centum of its capital: *Provided, however*, That if at any time in the future the present proportion of the total outstanding unmatured United States bonds to the total capitalization of all national banking associations in active operation shall diminish, then the authorized issue of national bank guaranteed credit notes shall be increased to a correspondingly greater percentage of the bond-secured notes.

"SEC. 2. That every national banking association taking out national bank guaranteed credit notes in accordance with the foregoing section shall pay to the Treasurer of the United States in the months of January and July a tax of one and one-fourth per centum upon the average amount of such notes in circulation during the preceding half year.

"SEC. 3. That any national banking association which has taken out national bank guaranteed credit notes in accordance with the provisions of section one of this act may take out a further amount of national bank guaranteed credit notes equal to twelve and one-half per centum of its capital, but it shall pay to the Treasurer of the United States in the months of January and July a tax of two and one-half per centum upon the average amount of such notes in circulation during the preceding half year.

"SEC. 4. That the total amount of bank notes issued by any national banking association, including national bank guaranteed credit notes taken out in accordance with the provisions of this act, shall not exceed the amount of its paid-up capital.

"SEC. 5. That any national banking association situated and doing business in a central reserve city or a reserve city shall at all times have on hand in lawful money of the United States an amount equal to at least twenty-five per centum of its national bank guaranteed credit notes in circulation, and every other national banking association shall at all times have on hand in lawful money of the United States an amount equal to at least fifteen per centum of its guaranteed credit notes in circulation: *Provided, however*, That any national banking association situated and doing business in a reserve city may keep one-half of its lawful money reserve on deposit in a national bank in a central reserve city or in a reserve city and that every national banking association situated and doing business outside of a central reserve city or a reserve city may keep three-fifths of its lawful money reserve on deposit in a national bank in a central reserve city or in a reserve city.

"SEC. 6. That the taxes upon national bank guaranteed credit notes provided for in sections two and three of this act shall be paid in lawful money to the Treasurer of the United States. Said taxes, when received, shall constitute a guaranty fund to redeem the notes of failed banks and to pay the cost of printing and current redemption.

"SEC. 7. That when any national banking association takes out any national bank guaranteed credit notes for issue and circulation, it shall deposit with the Treasurer of the United States in lawful money an amount equal to five per centum thereof. The amount so deposited shall be placed in the guaranty fund for the purposes thereof. But said amount shall be refunded to the respective banks as soon as the taxes provided for in sections two and three of this act maintain said guaranty fund above five per centum of the maximum amount of national bank guaranteed credit notes taken out for issue and circulation, but that no bank shall withdraw any part of its deposit of said five per centum until it shall have to its credit in said fund more than five per centum.

"SEC. 8. That the Comptroller of the Currency shall designate certain cities conveniently located in the various sections of the United States for the current daily redemption of said national bank guaranteed credit notes; he shall fix rules and regulations for such redemption; and, before authorizing and permitting any national banking association to take out for issue and circulation any national bank guaranteed credit notes, he shall require such bank to make arrangements satisfactory to him for the current daily redemption of such notes in every redemption city so designated.

"SEC. 9. That said national bank guaranteed credit notes, issued in accordance with the provisions of this act, shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to

the United States, except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States except interest on public debt and in redemption of the national currency. Said notes shall be received upon deposit and for all purposes of debt and liability by every national banking association at par and without charge of whatsoever kind.

"SEC. 10. That the holder of any national bank guaranteed credit note shall have a prior lien on the assets of the national banking association issuing it and on the statutory liability of shareholders.

"SEC. 11. That upon the failure of a national banking association all outstanding national bank guaranteed credit notes taken out by it in accordance with the provisions of this act shall, upon presentation to the United States Treasurer, be paid in lawful money out of the guaranty fund; but the United States Treasurer shall recover in lawful money from the assets of the failed bank the amount of the guaranteed credit notes of such bank outstanding at the time of failure, and the same shall be paid into the guaranty fund as provided in section ten of this act.

"SEC. 12. That any national banking association desiring to retire its national bank guaranteed credit notes or to go into liquidation shall pay into the guaranty fund an amount of lawful money equal to the amount of its national bank guaranteed credit notes then outstanding.

"SEC. 13. That any national banking association desiring to take out national bank guaranteed credit notes and having notes outstanding in excess of sixty-two and one-half per centum of its paid-up capital, to secure the payment of which United States bonds have been deposited, may, upon the deposit of lawful money, redeem such excess without reference to the limitation of nine million dollars each month prescribed in the act approved March fourth, nineteen hundred and seven."

Respectfully,

THE CURRENCY COMMISSION OF THE AMERICAN BANKERS' ASSOCIATION.

Mr. COX. Mr. Chairman, I would ask that you hear Mr. Hamilton, one of the pioneers in credit currency, who has been before you on other occasions, and who was formerly the president of the American Bankers' Association.

STATEMENT OF JOHN L. HAMILTON, ESQ., OF HOOPESTON, ILL.

The ACTING CHAIRMAN. Please state where your home is, Mr. Hamilton.

Mr. HAMILTON. Hoopeston, Ill.

The ACTING CHAIRMAN. What position did you hold in connection with the American Bankers' Association?

Mr. HAMILTON. You mean at the present time?

The ACTING CHAIRMAN. No; what position did you hold?

Mr. HAMILTON. I was president of the association two years ago.

The ACTING CHAIRMAN. For what years?

Mr. HAMILTON. For the years 1905–6.

The ACTING CHAIRMAN. Are you now a member of that association?

Mr. HAMILTON. Yes, sir; I am a member of the association, and a member of the currency commission, and executive committee.

The ACTING CHAIRMAN. And as a member of the currency commission that reported favorably upon a bill at a meeting held at Chicago, Ill., January 18, 1908, you are now appearing before us?

Mr. HAMILTON. Yes, sir.

The ACTING CHAIRMAN. Proceed in your own way, Mr. Hamilton.

Mr. HAMILTON. The commission met in Chicago pursuant to the call of the chairman and took up the two principal measures that

were before Congress, as we understood at that time. There were several others before Congress, but the two that were attracting the greatest attention were the Aldrich bill and the bill proposed by your chairman, Congressman Fowler. After discussion of these measures for the greater part of the day a committee was appointed which prepared the resolutions that you have before you.

The ACTING CHAIRMAN. One question, please. Were there many bankers present at that meeting?

Mr. HAMILTON. Nine of the 15 members of this committee were present at the meeting.

The ACTING CHAIRMAN. Can you, from memory, name those men, or have you any data from which you can name them, and tell from what sections of the country they came?

Mr. HAMILTON. Yes, sir; I think I can name every one of them. Mr. James B. Forgan, president of the First National Bank of Chicago, was chairman of the meeting, in the absence of Mr. Hepburn, who had gone to Europe; but Mr. Hepburn gave out a letter outlining his objections to these measures, which was practically the same as the report; Joseph T. Talbert, vice-president of the Commercial National Bank of Chicago; Mr. Charles H. Huttig, president of the Third National Bank, at St. Louis; Mr. Luther Drake, president of the Merchants' National Bank of Omaha; Mr. Myron T. Herrick, chairman of the board of directors of the Society for Savings of Cleveland, and ex-governor there; Mr. Robert Wardrop, president of the People's National Bank of Pittsburg; Mr. Arthur Reynolds, president of the Des Moines National Bank of Des Moines, Iowa; Mr. Sol Wexler, vice-president of the Whitney National Bank of New Orleans, and myself.

Mr. HAYES. And Mr. Perrin?

Mr. HAMILTON. Mr. Perrin was not present. He was sick.

The ACTING CHAIRMAN. I only wanted to show on the record the character of the men who were present and the sections of the country represented.

Mr. HAMILTON. I will say in this connection that Mr. Perrin and Mr. Wade, who were both members of the committee, were not present, yet they have since indorsed the action of the committee, as have also Mr. Cox, Mr. McCord, and Mr. Swinney. They are the five who were not present. There were six who were not present, counting the chairman, Mr. Hepburn. We had in addition, at that meeting, Mr. Lacey, president of the Bankers' National Bank of Chicago; George M. Reynolds, president of the Continental National Bank, and Mr. George E. Roberts, president of the Commercial National Bank. They were present and took part in the discussion on this measure, and while they are not recorded in connection with this, yet they were of the same opinion as the committee.

Mr. GILLESPIE. How long were you in session?

Mr. HAMILTON. We were in session all day Saturday, from about 9 o'clock in the morning until about 6 or 7 o'clock at night.

The committee feel that this is the best measure that has been so far before the American people. This measure has been presented, as you perhaps know, to a great many State bankers' associations and a great many different organizations, as well as to the membership of the American Bankers' Association. It has the approval of the executive council of the Bankers' Association of Illinois and

of the American Bankers' Association. This bill was brought before the convention held at Atlantic City and indorsed at that meeting.

Mr. GILLESPIE. Last summer?

Mr. HAMILTON. Last summer. The secretary sent out notices to all the members of the association that one day would be set apart for the discussion of this measure, giving all those who had any objections to present an opportunity to be there and present their objections. The notice was not only sent to members of the association but to bankers who were not members, so that anyone might have an opportunity to be there. It is true that the measure was gotten up between the meetings of the association, and we deemed it advisable as a commission to present it to that organization and secure its approval. There were but two men who appeared upon the floor of the convention in opposition to the measure. They were given full liberty to talk as long as they chose and as much as they chose on the subject. After listening to these gentlemen and the arguments in favor of the measure, which were mainly presented by the chairman, Mr. Fowler, but one other member of the commission, Mr. Perrin, taking part in it, they were adopted. You may have noticed a criticism in the newspapers, claiming that there were a limited number present at the meeting. There were about 150 bankers present in the room when the vote was taken, and 12 of those voted against the adoption of this measure. However, the notice had been sent out and all bankers had been given an opportunity to be there and to vote against it if they were interested in it.

Mr. GILLESPIE. What is the membership of the association that attended the meeting at Atlantic City? What was the largest attendance on any one day?

Mr. HAMILTON. The attendance that morning was perhaps the largest we have had. I should judge there must have been in the neighborhood of 2,000 present at the morning meeting, and this was taken up at that meeting.

Mr. GILLESPIE. And 150 were present when this matter was acted on?

Mr. HAMILTON. Yes; they had drifted out.

Mr. MCCREARY. But they were on notice that this was to be taken up?

Mr. HAMILTON. That day was set apart for it. It was the special order, and nothing else was set for that day. There were some other matters considered—amendments to the constitution, etc.—but this was the only thing on the programme published by the association for that day for their consideration.

Mr. GILLESPIE. You have seen the pamphlet that has been sent around by Mr. Frame?

Mr. HAMILTON. Yes, sir.

Mr. GILLESPIE. With his speech, giving a recital of the proceedings of the convention?

Mr. HAMILTON. The speech published by Mr. Frame and sent broadcast throughout the country was not delivered in the convention.

Mr. MCCREARY. It was canned goods? It was a speech that he did not deliver, but had leave to print?

Mr. HAMILTON. Yes. He did not deliver that speech.

Mr. JAMES. Do you think if he had delivered it that it would have affected the proceedings any?

Mr. HAMILTON. Not at all. I do not think so.

Mr. GILLESPIE. Did he speak?

Mr. HAMILTON. He spoke in a general way, and apologized for taking up the time of the convention, although he had unlimited time at his disposal. Mr. Frame has made challenges to members of the commission in his printed speech that he did not make in the meeting. The challenges would have been answered had he done so, but for some unknown reason the speech was permitted to be printed as though he had delivered it. The fact is that that speech has never been delivered in full at any meeting.

Mr. WEEKS. Is it printed at the expense of the association or at his own expense?

Mr. HAMILTON. I think it is largely at his own expense, although it is a part of the proceedings of the American Bankers' Association in their published report.

Mr. GILLESPIE. Is he a member of the association?

Mr. HAMILTON. Oh, yes; he is a member. His bank is a member of the association.

Mr. McCREARY. Is he a member of the commission?

Mr. HAMILTON. He is not a member of the commission. Now, going back to the bill, we have been very much disappointed as a committee because the bill was not introduced earlier in Congress, supposing, of course, that it would be. This bill has back of it the support of three-fourths of the national banks outside of the reserve cities, and it has the indorsement, I think, of the majority of the banks in the reserve cities. I know particularly as to the banks outside of the reserve cities for the reason that I took this matter up individually with those institutions. The more we consider the measure the better we think it is for the interest of the country. We believe it will give to the country a safe currency, one that will be automatic, one that will meet with the demands of the times and be the means of preventing, to a large extent, panics. We realize that no measure will absolutely do this, no matter how it is framed, and no matter who gets it up.

This bill provides—do you want me to go into the general provisions of the bill, all the way through?

The ACTING CHAIRMAN. Yes.

Mr. PUJO. That is the McKinney bill?

Mr. HAMILTON. Yes.

Mr. PUJO. Yes, I would like to have you do so.

Mr. JAMES. You need not, of course, refer to the technical details.

The ACTING CHAIRMAN. State it in your own way.

Mr. HAMILTON. This bill, under section 1, provides that a national bank before it can issue such notes must have been in business a year and must have a surplus equal to 20 per cent of its capital. It also provides that it must have out a bond-secured circulation equivalent to 62½ per cent of its capital, and after that it may issue credit notes equal to 40 per cent of the bond-secured circulation outstanding. It may then issue——

Mr. McKINNEY. Explain why you took that 62½ per cent as the basis.

Mr. HAMILTON. The 62½ per cent basis, as was explained last year in connection with this measure, was arrived at as being the available bonds held by national banks that might be used for bond-secured circulation; and it was done not only to protect the national banks who are holders of these securities but to protect the individual holders. The Government having established the precedent, in the original enactment of our national-bank act to provide a market for its securities, and the people having faith in this class of securities as to the note issue, we did not think it was advisable to depart entirely from that precedent. It also assures a future market for Government securities.

(At this point an informal discussion took place as to where in the bill the provision as to 62½ per cent was to be found.)

Mr. McKINNEY. I will say that I introduced the identical text that was sent to me. If that provision is not clear enough to express the meaning of the commission, that can very easily be changed. As I understand, the desire of the commission is to preserve the present character of the bond-secured notes, and to keep it up to that amount, and not to change from a bond-secured circulation entirely.

Mr. HAMILTON. Yes.

The ACTING CHAIRMAN. Proceed, Mr. Hamilton.

Mr. HAMILTON. The bill provides further that after the banks have out 62½ per cent of their capital in bond-secured notes they may then issue 25 per cent of their capital in notes taxed at 2½ per cent, and they may issue an additional 12½ per cent in credit notes bearing a tax of 5 per cent.

Mr. JAMES. This first issue bears a tax of 2½ per cent?

Mr. HAMILTON. The first issue bears a tax of 2½ per cent. Section 2 of the bill provides for the 2½ per cent tax. Your committee amended that last year and made it 3 per cent. We went back to the original idea and made it 2½, believing in the theory that a low tax was better than a high tax.

Mr. JAMES. As I understand it, under this bill you require them to deposit a 5 per cent reserve to redeem these notes issued originally, in gold.

Mr. HAMILTON. Yes, sir; in the guaranty fund.

Mr. JAMES. You make the first tax 2½ per cent, and you keep that tax in the fund until it becomes 5 per cent, and then you let the banks withdraw the 5 per cent in gold?

Mr. HAMILTON. Yes.

Mr. JAMES. But what becomes of the tax which has accumulated over the 5 per cent, which has enabled the banks to withdraw the original 5 per cent, when a bank desires to liquidate or to quit business?

Mr. HAMILTON. That, I presume, would remain in the hands of the United States Treasury.

Mr. JAMES. But it is in the hands of the Treasury now as a trust fund. Is there any provision in the bill that it shall be covered into the Treasury?

Mr. HAMILTON. No; there is no provision of that kind.

Mr. JAMES. Do you think it ought to go into the Treasury?

Mr. HAMILTON. I really think there should be a limit to the amount of the guaranty fund established in some manner; but in the measure

there is no limit. It is left an open question. You have now your annual tax from year to year, and that accumulates——

Mr. JAMES. It accumulates after the 5 per cent——

Mr. MCKINNEY. The tax keeps on.

Mr. JAMES. When it gets over the 5 per cent, what becomes of it?

Mr. HAMILTON. There is no provision for that.

Mr. MCKINNEY. It keeps piling up. It does not go back to the banks, and it is not limited to the 5 per cent.

Mr. HAMILTON. We have not undertaken to dispose of that surplus.

Mr. WEEKS. As long as you are speaking of the tax on this currency, I would like to ask two or three questions about it, in a general way.

Mr. HAMILTON. Yes, sir.

Mr. WEEKS. Do you not think we have currency enough in ordinary times, say forty-five weeks out of the year, under present conditions?

Mr. HAMILTON. Yes, I do.

Mr. WEEKS. Well, do you think under this method of taxing the currency that it would all of it ever be retired? Would not some of it be in circulation all the time?

Mr. HAMILTON. I think there is bound to be some of it in circulation, and I think it good policy that it should be in circulation.

Mr. WEEKS. Then it is adding to the volume of our present circulation all the time, to a certain extent.

Mr. HAMILTON. I do not think that the amount would be material.

Mr. WEEKS. Why would it not be material?

Mr. HAMILTON. It depends on your redemption facilities.

Mr. WEEKS. Why would it not be material, if the banks can make a profit out of it?

Mr. HAMILTON. The ability of the banks to make a profit depends upon the length of time the notes will remain in circulation, of course.

Mr. WEEKS. Of course.

Mr. HAMILTON. And we do not believe that these notes can remain in circulation for a longer period than thirty days under the most favorable circumstances. Consequently the profits would be so meager that the notes would naturally be retired.

Mr. WEEKS. The same notes will not remain longer than thirty days, but some other notes will go right out to take their places, will they not?

Mr. HAMILTON. They may, and they may not; because when the tide of currency is toward the commercial centers, it is practically impossible to keep out any considerable quantity of these notes. There are certain seasons of the year when the money accumulates in the commercial centers—the actual bills.

Mr. WEEKS. Let us take an instance. You issue notes, and they come into Mr. Cox's bank. There is a profit in issuing the notes, and Mr. Cox sends yours in for redemption and issues his own, does he not?

Mr. HAMILTON. Certainly.

Mr. WEEKS. Is not that going to be perpetual, that method of keeping the notes out as long as there is any profit in doing it? So that although a note may be and will be on an average retired in thirty days, does it not mean that the same volume of notes is going to be out all the time, provided there is a profit in issuing them?

Mr. HAMILTON. No, it does not mean that, for the reason that it would be impossible for Mr. Cox, residing in a commercial center, to keep out any considerable quantity of those notes. They would be immediately sent back for redemption; and if he should put out $50,000 in notes, to-morrow, or to-day, in the city of Washington, he is practically sure to find those in the clearing house to-morrow morning for redemption, the same as he finds the drafts issued on the institution or his cashier's checks there for redemption.

Mr. JAMES. Suppose it was in a country like I represent, where we have no clearing house; where we have a national bank in, say, one town and two in another, and money is worth 6 or 8 per cent. Would it not be profitable for the banks to issue these notes at 2½ per cent if they can lend the money at 6 per cent and keep it out? When people in my country get money, they do not rush to put it in bank. They keep it in their pockets to a certain extent. When the banks would lend the money at 6 and even at 8 per cent in Kentucky, in my district, would not that money stay out?

Mr. HAMILTON. I do not think that money will stay out to any considerable extent in any locality. The whole principle, I think, that the banking system of the United States is based on is the checking system rather than on the note-issuing system.

Mr. JAMES. That is true in the great cities.

Mr. HAMILTON. We are encouraging the people from the country—you and I are both from the country——

Mr. JAMES. But that is not true in the country.

Mr. HAMILTON. But we are encouraging the people to build up the deposits. That is what they are aiming for.

Mr. JAMES. All the time; yes.

Mr. HAMILTON. Your banks, no matter what kind they may be, national, State, private, or what not, are encouraging the people to deposit their money in the banks and to use their individual checks in preference to currency.

Mr. JAMES. But right there let me say that this panic has done more to discourage that than anything on earth, and you will find that it will take years to get the people back to the standard of confidence that they had before the panic in depositing their money.

Mr. HAMILTON. There is no question about that. You are absolutely right in the proposition that this panic has been one of the most diastrous to the banking interests that ever occurred, and it has shaken the confidence of the public in those institutions.

Now, if this measure had been enacted a year ago it would have prevented the occurrence of this panic. The condition in your section of the country was the same as the condition with me. I am the only member of our commission who does not reside in a clearing-house center. The result of this panic and the trouble it brought upon us was that we could not get actual currency from the commercial centers. In some localities the demand for currency was abused by the country bankers.

Mr. WEEKS. Do you not think it was generally abused?

Mr. HAMILTON. I do not think it was generally abused.

Mr. WEEKS. Does not the statement of the national banks prove that?

Mr. HAYES. I think it does.

Mr. JAMES. Was it not abused, not so much by the country bankers as by the fellow who had the country bankers' money on deposit?

Mr. HAMILTON. There are two sides to that question. We who live in the country are inclined to condemn our city brother. Of course the city banker had his difficulties to contend with, and I think when you sift both sides of the question down they were both indiscreet in their actions in that respect; but, nevertheless, our people were unduly alarmed by the fear that they could not get money from the reserve institutions; and in every community where the banks had to pay a limited amount of cash to their customers those communities have been seriously crippled by the conditions that have prevailed, and confidence has been disturbed in those communities. Now, going back to the idea of the country bank note remaining out longer than the note of the commercial center. It might perhaps remain out a little longer, but if these notes are sent in by any institution (as is contemplated by the Commission, but not embodied in the report) through the Post-Office Department, for credit without expense to the bank remitting, it will immediately send those notes home for retirement; and I think that it might be a wise provision to have that expense borne by the bank of issue. This would be an extra inducement to the banks who are not in the national system, sending in these notes for redemption.

Mr. JAMES. The reason I asked that question was this: Take my home town. There the bank suspended specie payment and only paid 10 per cent on a man's deposit for over sixty days. It is a tobacco community. They commenced buying tobacco, and when they paid their money out to the farmers, the farmers would not put that money in bank. They were alarmed, and they took the money home with them. Now, if they were satisfied with this currency, would they not do that same thing?

Mr. HAMILTON. If they did take this kind of currency home, it would not hurt, for it would only stay a limited time before it would get back in the natural channels of business, the same as has occurred under the present conditions.

Mr. HAYES. In other words, they would spend it?

Mr. HAMILTON. Yes.

Mr. JAMES. But you must not presume on the theory that the farmers have to spend all they get.

Mr. HAMILTON. It is not an inflation as long as it is kept hidden.

Mr. GILLESPIE. The point is that there is a profit to the bank as long as a man keeps it in his pocket.

Mr. WEEKS. What I wanted to ask you, further, was whether in your judgment it is desirable for banks to make any considerable profit on the issuing of circulation?

Mr. HAMILTON. I do not think it is desirable that they should make any considerable profit; no, sir. But I think there should be some profit in it.

Mr. WEEKS. I do not think that any man with any reason would contend that there should not be a profit in any business enterprise; but circulation is so intimately associated with everything in our business life that it is necessary. The bank is supposed to make its profit out of its commercial business, or the business of loaning money, which is its business. Do you not think that the profit in issuing circulation should be reduced to the minimum?

Mr. James. Especially an emergency circulation.

Mr. Weeks. I will confine it to that.

Mr. Hamilton. Yes; I think it should be, and I think it is reduced to the minimum in this measure.

Mr. Weeks. I think the present circulation is reduced to the minimum. I agree with you; but do you think it is in this bill?

Mr. Hamilton. I think so; yes, sir. Now, take this bill, the original bill that was presented by your committee, with the 3 per cent tax, with money loaning at 7 per cent. I have had it figured by the actuary of the Comptroller's Office and by other men, and it shows a net profit to the bank, providing that such notes remain out on an average of thirty days, the same as they do in Canada, of 1.95 per cent.

Mr. Weeks. Do you not think that is too much?

Mr. Hamilton. I do not think it is too much, because I do not think that they will be able to maintain the full amount in circulation for thirty days.

Mr. Weeks. Suppose it remained out sixty days instead of thirty days. What would be the profit? Do you know?

Mr. Hamilton. I do not know. Of course it would be greater.

Mr. Weeks. What I wanted especially to get your opinion on was whether you think it desirable to have more currency than we have now for normal times, and whether you think it is desirable that banks should make any considerable profit out of circulation. You know, of course, that there is a very widespread prejudice against anybody making any money in this country just now.

Mr. Hamilton. Certainly.

Mr. Weeks. Especially the banks.

Mr. Hamilton. Yes.

Mr. Weeks. And it seems to me that there is a point—my prejudices are not against the banks, as you know—where we can properly draw the line in legislation. The business of the bank is to loan money, and to make its profits out of loaning money, and when you make money out of a privilege which comes from the Government, and which affects all the people whether they are borrowers of money or not, it seems to me that should be reduced to a minimum; that that is good policy and good business from the standpoint of the Government. For that reason I think myself that the tax on the circulation is too small, and I wanted your definite ideas on that subject, because you have had large experience.

Mr. Gillespie. The bank stands to furnish accommodation to its customers. These credit notes do not represent the capital of the bank. They only put the bank in the same position to use these notes as otherwise they could use their deposit privileges. To tax the banker's note stands upon no other plane than to tax the right of the deposit privileges. These notes can be used and put into circulation, but as long as they are in the teller's drawer, in the bank's possession, they represent nothing but a signed piece of paper. They become nothing until they go out in circulation. The bank stands to furnish this accommodation to commerce, just as it gives the right to draw a check, and to require a bank to pay a tax when it puts out one of these credit notes is on no different plane whatever from requiring the bank to pay a tax whenever it opens up a deposit account with a customer.

Mr. WEEKS. I should be perfectly willing to argue that point with my friend from Texas at the proper time.

Mr. GILLESPIE. And every cent of tax that you put on the bank it is going to recover in self-defense. It is going to put it on commerce. No other country that issues this kind of credit ever put a tax upon it, except in Canada, where they put a small tax on to create a guaranty fund.

Mr. WEEKS. I am getting at it from another viewpoint entirely. In my judgment we have ample currency for ordinary needs, and any further issue of currency means a tendency to inflation. I do not use that term technically either. I want to be sure that we are not going to have any further issue of currency as a permanent issue. I want it to be temporary, and for that reason I want the tax large enough to immediately and suddenly drive that currency in. That has nothing to do with the technical question which Mr. Gilespie has raised, and in which I think he is probably right; and if we did not have half a dozen other kinds of circulation I would agree with him absolutely. But having the other circulation, we must figure from that standpoint, and not from the standpoint that we would figure from if we were starting to entirely revolutionize our currency system. That is what I am trying to get at.

Mr. CRAWFORD. You want an ordinary increase, do you not? We started about ten years ago with $22, and now we have $32.

Mr. WEEKS. I understand, but we have circulation enough, in my judgment.

Mr. CRAWFORD. But what about the increase in business and population?

Mr. WEEKS. The circulation has nothing whatever to do with the business in ordinary times.

Mr. CRAWFORD. Do you not think the increase of circulation since 1896 has had something to do with the business prosperity of the country?

Mr. HAYES. You gentlemen are taking up Mr. Hamilton's time. I want to hear him, if you will excuse me.

Mr. POWERS. I want to ask a few questions in reference to this. I was one of the Republican Members who refused to report your bill last year, for the reason that I believed it was very largely an inflation measure, based substantially upon the views that were advanced by the gentleman from Massachusetts, Mr. Weeks. I see no sufficient reason to believe that this would be a flexible currency, that it would come back after it had been put out. Knowing that the conditions are not the same here as they are in Canada, that we have more money in the various State banks than we have in these, I want to ask you, if these bills are equally good with any of them (and they must be or there is no use in putting them out), what reason would any State bank, trust company, or savings bank have for selecting them out and sending them for redemption instead of continuing to pay them over their counters, if they have no bills of their own to get out?

Mr. HAMILTON. They would have no particular interest in returning these bills unless there were some provision made for their return, either through the plan outlined by the Comptroller's office or else embodied in the measure.

Mr. POWERS. Would they not continue, as long as they were good, to use them and pay them out, and would they attempt to return one of these any quicker than they would a national-bank note secured by bond?

Mr. HAMILTON. It is contemplated, you know, that that part of the detail shall be covered by the Comptroller of the Currency in the rules that he makes governing these redemption centers.

Mr. POWERS. I understand——

Mr. HAMILTON. And there is a provision here that such expenses may be paid out of this fund, you know.

Mr. POWERS. But what inducement is there for a trust company having an amount of money consisting partly of bond-secured currency and partly of this currency to select these bills and send them to a reserve center to be redeemed as long as one is equally as good as the other, and one goes as current as the other?

Mr. HAMILTON. It depends, of course, upon the location of the institution largely.

Mr. POWERS. But one is just as good as the other.

Mr. HAMILTON. If it is in the country, the country institutions would send those bills to their correspondents for credit, because they can send them without the expense.

Mr. POWERS. Why should a trust company do it, or why should any bank do it, unless it wants to get its own bills out?

Mr. HAMILTON. The reason they should do it is that it is natural for people in any line of business to avail themselves of any profit they can make by saving the expense of express on currency shipped. It is also to the interest of all bankers to keep down the circulation as much as possible.

Mr. POWERS. Perhaps you may not recall it, but I asked substantially this same question of Secretary Shaw, as to what he believed with reference to the bills returning within a reasonable time, and he said he did not think over 10 per cent would—and I concurred with him—until it got worn out. Now, let me ask you one more question. Can you not in some way recall those bills, so that instead of this being an inflation measure that would increase the volume of currency—I agree with Mr. Weeks that we do not want it increased in ordinary times—it can be issued as emergency currency, and then returned to the banks? I like your bill in many respects.

Mr. HAMILTON. Of course our measure might be amended, fixing the date to which the note should remain out, but I do not think it advisable to do so.

Mr. POWERS. How do you propose to have the bank redeem the notes? By depositing other notes?

Mr. HAMILTON. In lawful money or circulation notes.

Mr. POWERS. I suppose you would permit them to be redeemed by depositing lawful money?

Mr. HAMILTON. Yes.

Mr. POWERS. I care not how large the tax is, it will not affect the circulation unless you impound the lawful money and keep it by itself, not to be paid out until the bills come in. A tax will not reduce the circulation under the existing laws, will it?

Mr. HAMILTON. What you mean is, if the money is deposited with the Treasury Department and it again deposits it with some other institution?

Mr. POWERS. No matter if the bank has been relieved of the interest, the excessive currency or inflation is still out.

Mr. HAMILTON. That is a feature that we have not attempted to regulate, because it applies to the management of the Treasury Department. We did not think it advisable to embody any feature of that kind in this measure.

Mr. POWERS. Now, you said that if this had been adopted last year it would have prevented the present panic. I rather think it would, but having once issued several hundred millions more this year, how would it have been next year? Would we not have it worse than this year, if it should prove to be an inflation rather than an elastic currency?

Mr. HAMILTON. I do not think it can be an inflation.

Mr. POWERS. I can not see how it is possibly anything else.

Mr. HAMILTON. Because the banking experience of the Commission shows that the money accumulates during certain periods of the year. The national-bank notes to-day accumulate in reserve cities and they do not know what to do with them.

Mr. POWERS. I understand that.

Mr. HAMILTON. These notes are bound to go in just the same as the national-bank notes go in.

Mr. POWERS. I admit that a certain percentage will get in, but most institutions will not send these in in preference to getting the interest, and the amount of currency that is sent in will not be very large as compared with the great volume of currency of the country. I can not see any reason why you can assume that these notes, if they are equally valid, and if the people receive them equally readily as any other put in circulation under our peculiar banking system in this country, shall come back, except very slowly. How long does it take for national-bank notes to come back—two or three years, on an average, does it not?

Mr. HAMILTON. Seven hundred and thirty days, I believe, is claimed to be the period.

Mr. POWERS. I can not see how they can come back more rapidly, or but very little more rapidly, than the present currency. If that is so, then this becomes thereby not an elastic currency, but an inflation currency, which we do not want; and that has been my objection to your bill.

The ACTING CHAIRMAN. Would it not be well for us to hear Mr. Hamilton through, because our time is running. I do not think Mr. Weeks's questions have been answered, have they?

Mr. WEEKS. I think he has answered all he cares to.

The ACTING CHAIRMAN. Go on with the other sections of the bill then, Mr. Hamilton.

Mr. HAMILTON. Section 3 of this measure provides for the 5 per cent tax increase, which would not be issued until after the other $2\frac{1}{2}$ per cent notes had been in circulation, as is natural. The total amount of the bank-note issue, as provided in this measure, shall not exceed the capital of the institution. There has been a great deal of criticism of this particular section of the bill in different sections of the country. Natonal banks having out their full quota have objected to that provision, claiming that this measure would not give them any relief, because they can not issue any additional circulation. However, I think that is a very important provision in this measure, that

there should be a limit to the amount of notes that may be issued. And we have provided in the last section of the measure so that national banks having out the full quota of issue may reduce it down to 62½ per cent of their capital without reference to the law that now exists limiting the amount of redemption to $9,000,000 a month.

Section 5 of the measure provides for the legal reserve to be carried as against these notes, requiring the same reserve that is now carried against deposits in the different kinds of banking institutions, as designated under our national banking act. In other words, it provides the same requirement as to the reserve in the central reserve cities, that 25 per cent be carried in their vaults; and the same provision as to reserve cities, requiring that they must maintain a reserve of 25 per cent, one-half of which may be carried with a central reserve city; and the same provision as to the country banks, which require a 15 per cent reserve, three-fifths of which may be carried with reserve cities or central reserve cities.

Mr. WEEKS. Do you not think it advisable to increase the amount of the reserve which country banks should carry in their own vaults?

Mr. HAMILTON. I do not. I think that would be a serious mistake. I believe that the average country bank carries a greater reserve most of the time than the law contemplates they should carry, and if you should increase the reserve that they should carry to two-thirds instead of two-fifths you would be tying up $110,000,000 of additional money in the hands of the country institutions that would be absolutely useless in ordinary times.

Mr. JAMES. In times of panic have they not got that tied up anyhow, in reserve and central reserve cities?

Mr. HAMILTON. They have it tied up in central reserve cities to a certain extent, yes; but after a few days of the experience that we have just had, the greatest difficulty we all had to contend with was that we did not have enough credits in the reserve cities rather than not enough cash.

Mr. PUJO. I would like to ask Mr. Hamilton a question. The authorized circulation that could be taken out by national banks in this country approximates $900,000,000, does it not?

Mr. HAMILTON. Yes, sir.

Mr. PUJO. And the actual circulation of bank notes approximates $600,000,000, does it not?

Mr. HAMILTON. Yes.

Mr. HAYES. Nearly $700,000,000.

Mr. HAMILTON. The last report, December 23, 1907, was $601,000,000.

Mr. PUJO. During the financial panic of 1907, with a duty of one-half of 1 per cent every six months on circulation, would not $300,000,000 of additional circulation to the volume of currency during the last panic have prevented this financial panic?

Mr. HAMILTON. I think so.

Mr. PUJO. Did not the clearing-house certificates issued during the last panic amount to only $150,000,000 approximately?

Mr. HAMILTON. I have never seen the figures on that.

Mr. PUJO. I am referring to the report of the Comptroller of the Currency, at page 60, showing that clearing-house certificates were issued amounting to $154,000,000.

Mr. HAMILTON. I have never seen that report.

Mr. PUJO. Did the issuance of these clearing-house certificates have a tendency to prevent runs on banks, and to protect the financial interests of the country, generally?

Mr. HAMILTON. I think the issuing of the clearing-house certificates was an excellent movement to stop the panic, but I do not believe the issuing of the clearing-house certificates, or the thought that clearing-house certificates are likely to be issued, would be the means of preventing a panic.

Mr. PUJO. Could not the national banks in this country, by taking out the circulation authorized by law, have prevented the occurrence of this panic in 1907?

Mr. HAMILTON. Certainly, sir; there was plenty of margin in it, I think.

Mr. PUJO. Could they not, after the appearance of the panic, have prevented it by an application for the issuance of the currency to which the banks were entitled under the law?

Mr. HAMILTON. The greatest difficulty was that they could not get the bonds to put up to secure the bond-secured circulation.

Mr. PUJO. Is it not further a fact that there is not sufficient profit in the circulation for them, according to their viewpoint, which has prevented them in the past from taking out the circulation to which they were entitled under the law?

Mr. HAMILTON. Under your present national-bank system of depositing Government bonds as security for circulation there is no inducement for a national bank to issue these notes for the sake of profit, the reason being that the higher the rate of interest that prevails in the community the less profit there is in national bank note circulation. In other words, at an 8 per cent basis they would be losing money.

Mr. PUJO. Then, your view, upon a study of this question, is that the banks could not have prevented this panic because they did not have the bonds to obtain the additional circulation to which they are entitled under the law?

Mr. HAMILTON. They do not carry them, and do not have them; yes.

(After an informal discussion the committee, at 12 o'clock m., took a recess until 2 o'clock p. m.)

AFTER RECESS.

STATEMENT OF JOHN L. HAMILTON, ESQ.—Continued.

Mr. HAMILTON. Mr. Chairman, I think we were on section 5 when we took the recess, relative to the legal reserve to be carried against the credit notes to be issued.

The CHAIRMAN. I think you had finished that.

Mr. HAMILTON. It is contemplated in connection with this that the same reserve may be used in the issue of a credit note in case of emergency that is now used to secure a deposit, as against the deposits. In other words, when there were heavy withdrawals of deposits you would have a larger legal reserve on hand that might be used to secure these notes, and credit notes would be put out in lieu of the withdrawing deposits.

Section 6 of this bill provides for the creation of a guaranty fund to be held by the Treasury.

Mr. GILLESPIE. You still provide, I see, in the other section, that they continue to keep their reserve on deposit with other banks in reserve and central reserve cities.

Mr. HAMILTON. We make no change whatever in the present law relative to deposits.

Mr. GILLESPIE. I believe it is your opinion that no change should be made?

Mr. HAMILTON. I do not think it advisable to make a change in that case.

Mr. WEEKS. If you increase the amount of the reserve which the country banks should keep, do you think you would be justified in reducing the amount of the reserve which the central banks should be compelled to keep, in the same proportion, or in similar proportion?

Mr. GILLESPIE. Say, a flat 20 per cent all around.

Mr. HAMILTON. Well, frankly, I will say that I have never given that subject any thought, and I do not know how it would apply. As to the locking up of the reserve money of the country, that is something that would have to be demonstrated by figuring it out. I could not tell, in an offhand answer.

Mr. WEEKS. What do you think the effect would be if you compelled the country banks to keep 10 per cent in their vaults, if the increase of 4 per cent, which it would be, amounted to one hundred millions, as you stated this morning?

Mr. HAMILTON. One hundred and ten millions.

Mr. WEEKS. Well, something of that sort; and reducing the amount to be kept by the central reserve banks 5 per cent, which would amount to the same amount of money. What do you think the effect would be on the country, and on the banking interests? Have you thought of that?

Mr. HAMILTON. I have not given that subject any thought whatever, because the question has never arisen in my mind before; but I think that it is not desirable to change the reserve of the country bank. I do not think the recent conditions show that it is necessary that there should be an increased reserve exacted of them, held by the institutions.

Mr. MCKINNEY. Down in my locality the reserves were away down at that critical time.

Mr. GILLESPIE. You mean of the country banks?

Mr. MCKINNEY. Of the country banks. There was no way, apparently, in which they could be strengthened. They could not get currency.

Mr. MCMORRAN. Is not that the best reason in the world why the country banks should require a larger reserve instead of a smaller reserve?

Mr. MCKINNEY. I always thought that if a country bank did not have a proper reserve it was through carelessness of their own. A panic never jumps on you without a minute's notice.

Mr. GILLESPIE. Of course they had plenty of signs of this coming on.

Mr. MCMORRAN. Our banks never allow themselves to get below 20 per cent. They give as a reason for that that they are not as well

situated as the city banks, with the class of paper they are dealing in. They can not realize on it and depend on its payment as well as the city banks can, and therefore they feel, as a matter of safety, that they should keep an extra 5 per cent.

Mr. HAMILTON. Every bank carries the reserve in the country a good deal in relation to the convenience to commercial centers in order to get currency. They are governed more by that than by almost anything else; but I think there are very few banks with actually more than the 10 per cent of the legal reserve on hand; but I do not think it is good policy to amend your law and make it mandatory.

Mr. GILLESPIE. Do you think that 6 per cent reserve in a country bank or any other kind is sufficient to inspire confidence to the patrons of the bank? They begin to figure. This panic was a panic of men who could figure, you know. The Comptroller of the Currency in his statement calls attention to the reserves being too small. They begin to figure what this bank had to meet its demands absolutely, and there they find a little old 6 per cent. It engenders uneasiness. They begin to want to get their money out, especially if they see signs of danger. Things begin to get tight, with interest rates running up, and talk of bad assets and dishonest management, and all that, and they begin to figure on the condition of the bank, and here, this bank has only 6 per cent as a reserve. Is not that too small to inspire confidence?

Mr. HAMILTON. That does not enter into the general mind of the public.

Mr. GILLESPIE. It enters into the mind of the man who can calculate and who knows something about banking; and this was his panic.

Mr. HAMILTON. This was a bankers' panic.

Mr. GILLESPIE. This was a panic of men who could figure on the situation.

Mr. HAMILTON. But it did not affect the small country places until after the commercial centers went on a clearing-house basis.

Mr. GILLESPIE. They suspended their payments; or if it had gone on, they would have.

Mr. HAMILTON. Which?

Mr. GILLESPIE. The small country banks. In all probability a great many of them would have had a run like the others, and there they are caught with a little old 6 per cent.

Mr. HAMILTON. I beg your pardon. A majority of the country banks in the national system, even at the present time, did not suspend payment.

Mr. MCHENRY. That was true up in my district.

Mr. MCKINNEY. That was true in my region.

Mr. HAMILTON. They did not suspend at all. There is only here and there a place throughout the States. Take it in Illinois. A majority of the banks in Illinois, outside of Chicago, Peoria, Bloomington, and Quincy, I think, did not suspend cash payment.

Mr. GILLESPIE. I know that little towns in my district, of two or three thousand people, suspended.

The ACTING CHAIRMAN. We did not.

Mr. MCHENRY. In the large cities in Pennsylvania, at Pittsburg, and Philadelphia for a short time, and Harrisburg, we had suspen-

sions; but at Scranton and Wilkes-Barre none of our banks were affected at all.

Mr. McCreary. They did not suspend, but they were on the verge. If it had kept up a week or ten days longer they would have suspended. I can speak of one large town there, particularly, where the pay of the Reading kept everything going, but the moment they ran into paying cash the banks would have felt it.

Mr. McKinney. Mr. Gillespie, do you mean the reserve that the banks have in their own offices?

Mr. Gillespie. Yes; in their own vaults.

Mr. McKinney. I was connected with a bank for a good many years. As a rule I think we kept in our office only about 6 or 8 per cent, but in the hands of our correspondent, and immediately available, we almost never ran below 50 per cent of cash loans. We did not keep more in our office for the reason that we considered it hardly safe. Of course, in small country towns there is not the police protection that you have in large towns. We carried insurance against burglary and all that, but this 6 or 8 per cent we found adequate to meet all the needs we had.

Mr. Gillespie. Yes; in normal times, of course; but the money that you deposit of itself becomes a reserve, and it supports deposits. The law only requires 15 per cent. I believe if we had no law on the subject all banks would carry a great deal more reserves than now.

Mr. Hamilton. There is a certain portion of deposits deposited in commercial centers, called a reserve, that in reality does not belong to the reserve fund at all. It is their excess deposits. It is not really put there for the reason of complying with the law relative to maintaining the 15 per cent reserve. It is kept there for the purpose of getting what interest they can and the convenience of having it; and in the majority of small places exchange is more desirable generally than actual notes of hand.

Now, the next section is section 6, relative to the guaranty fund, which provides that the tax received from these credit notes shall be deposited in such a fund. Section 7 provides that before these credit notes can be issued the bank contemplating their issue must deposit with the Treasury Department a sum equal to 5 per cent of the contemplated issue, creating the guaranty fund at once. And after the receipts equal the amount of this 5 per cent, then the original deposit may be refunded to the bank of issue.

Section 8 provides for the redemption cities.

Mr. McKinney. But when you refund the original deposit, after you have reached 5 per cent through this tax fund, your fund will keep on increasing and accumulating?

Mr. Hamilton. We have made no provision whatever for a limit as to the amount of this fund.

Mr. McKinney. But it naturally will keep on increasing and accumulating.

Mr. Hamilton. The tax continues just the same as the tax now continues on national-bank note issues.

Mr. Gillespie. Is it your purpose that that shall be a fund to be covered finally into the General Treasury or to be held as a special fund to go eventually, if not used, back to the banks? What is your idea about what ought to be done with that?

Mr. HAMILTON. The thought of the committee was that that fund probably would belong to the Federal Government; but we did not attempt to provide what course should be pursued with it, for the reason that none of us were familiar with the needs of the Government and where you might wish to apply it, only having in mind the creation of a fund sufficiently large to meet all the expenses of the management of this department and giving security to the notes issued.

Mr. McKINNEY. Nothing has ever been done, has it, toward any distribution of the fund that has been created through the loss of national-bank notes in all the years since the national-bank act?

Mr. GILLESPIE. None that I am aware of.

Mr. McKINNEY. This would not go in the same category. You know there has been a profit always to the Government on account of the loss and destruction, and so on, of national-bank notes.

Mr. GILLESPIE. Yes.

Mr. McKINNEY. The assumption being that any of the notes that were ever issued might come up for redemption at some time.

Mr. GILLESPIE. Yes.

Mr. HAMILTON. Section 8 of this measure is relative to the redemption cities. We think that, as it states there, they should be not more than twenty-four hours distant from the bank. In other words, it might necessitate the creation of additional redemption cities over the 42 cities we now have as reserve cities—reserve city points—and we believe that the more convenient these redemption cities are the quicker the notes will be returned and retired; and the success of the plan rests largely on the convenience of these points. The great trouble even under the present system is the length of time, etc., that it takes to retire the notes. That is, the length of time that the notes remain outstanding, depending upon getting to Washington and being canceled, and the limited amount that may be retired. Of course under this measure the credit notes could be retired immediately when they came in, and it is expected that they would be charged to the account of the individual bank issuing them by their correspondents and would be retired at once.

The ACTING CHAIRMAN. I would like to ask a question right there. How are these to be redeemed?

Mr. HAMILTON. How are they to be redeemed?

The ACTING CHAIRMAN. Yes.

Mr. HAMILTON. By the correspondent of the institution in the commercial center, wherever it may be.

The ACTING CHAIRMAN. In what kind of money or currency?

Mr. HAMILTON. Oh, in lawful money, or like notes, you know. They may be redeemed in either.

The ACTING CHAIRMAN. Does your bill so state?

Mr. HAMILTON. It says in lawful money.

Mr. GILLESPIE. That does not mean this kind of note.

The ACTING CHAIRMAN. That would not be lawful money.

Mr. GILLESPIE. Our statute defines what lawful money is—legal tender.

Mr. HAMILTON. This bill, I think, covers that.

Mr. GILLESPIE. This says, "lawful money," just like the present bank note.

The Acting Chairman. What section is that?

Mr. Gillespie. Somewhere here it says that it shall be redeemed in lawful money.

The Acting Chairman. We have so many different bills that I am afraid we mix them up.

Mr. Hamilton. Of course section 13 speaks of the——

Mr. Cox. It is in section 6.

Mr. Hamilton. Read it.

Mr. Cox. "That the taxes upon national bank guaranteed credit notes, provided for in sections 2 and 3 of this act, shall be paid in lawful money to the Treasurer of the United States."

The Acting Chairman. But that is as to the payment of the taxes. Now, you have a redemption city created by the Comptroller of the Currency, and I come to that redemption city with some of your notes, issued by your bank in Illinois, and I ask to have those notes redeemed. What will they pay me in exchange for those notes; and does your bill state what it shall consist of?

Mr. McKinney. Section 8 provides for the redemption.

The Acting Chairman. But it leaves it entirely with the Comptroller.

Mr. Hamilton. I guess it is left with the Department, because I see no provision as to that.

Mr. McCreary. Absolutely; because it says that he shall require such bank to make arrangements satisfactory to him.

The Acting Chairman. Do you not think that leaves it open? Suppose he insisted that you redeem it in gold coin?

Mr. Hamilton. Section 12—I do not know whether that could be construed to apply or not: "That any national banking association desiring to retire its national bank guaranteed credit notes or to go into liquidation shall pay into the guaranty fund an amount of lewful money equal to the amount of its national bank guaranteed credit notes then outstanding."

That is, when it is going out of business.

The Acting Chairman. But if it does not want to retire? You say the interest of any other bank would be strong enough to send your notes in and have them redeemed, so as to leave a place for its notes to be put in circulation. Now, then, I am that other bank. I have your notes. I step to the redemption agency, and ask to have your notes redeemed, to get rid of them, so that my notes can take their place. What do I receive in return or exchange for your notes or your bills?

Mr. Hamilton. I guess that is not as fully covered as it might be in the measure. I think that is a good criticism.

The Acting Chairman. I think that ought to be covered in some way. Now, in connection with that, we have heard a good deal in this committee—the older members—of the danger of throwing too much upon the gold reserve, or upon gold as a basis of redemption or exchange. It is claimed that by reason of our keeping our money on a parity the silver can be exchanged for gold; that the Treasury notes can be exchanged for gold; that the greenbacks can be exchanged for gold; that national-bank notes, as now issued and in circulation, by one step can be exchanged for gold. If there has been a danger up to this time, and you throw an extra burden of two or three hundred millions upon that same fund, are you not

making that gold basis a little dangerous for the purpose of keeping all kinds of money at a parity; and, as a matter of fact, with your kind of currency, as well as the Aldrich currency, do you not, to the extent that you issue this currency, burden our present gold as an agent for the redemption of other money?

Mr. HAMILTON. I should think it would.

The ACTING CHAIRMAN. Is there not a danger growing out of the whole scheme and plan of this kind of currency? And if it is not a danger, tell why it is not.

Mr. MCKINNEY. Mr. Chairman, it seems to me that the whole tenor of this bill is against that. It states in what way the notes issued can be redeemed. In a former bill it was stated that they must be redeemed by the deposit of gold.

The ACTING CHAIRMAN. That is the new Fowler bill, so called.

Mr. MCKINNEY. Yes. In this bill it can be redeemed by depositing lawful money.

The ACTING CHAIRMAN. No; it leaves it in the discretion of the Secretary of the Treasury.

Mr. MCKINNEY. It does afterwards, back here.

The ACTING CHAIRMAN. That is when you retire it; but I refer to the current redemption of the notes.

Mr. MCKINNEY. It seems to me there should be a different statement here, though; that it should be in lawful money, to make it harmonious with the other provisions of the bill.

Mr. HAMILTON. I think it would be better to amend it to that extent.

The ACTING CHAIRMAN. What have you to say to the objection I make? We will have to meet that in the House, no matter what the proposition is, I am frank to say.

Mr. HAMILTON. I think it would throw an additional burden on the gold reserve of the country. However, you must take into consideration the fact that these notes will generally be issued when there is a withdrawal of the deposits and the same legal reserve would apply, one for the other. If three-fifths of the reserve of the country banks is carried with the reserve city, then it is up to that reserve agent to redeem those notes in whatever kind of money may be demanded. The idea that prevails that this note issue would enable banks to loan money, I think, is an erroneous one, to a certain extent. For illustration, if a man came into a bank and wanted to borrow $1,000 and demanded the currency for it, before the bank could make that loan it is necessary for it to have equivalent to really 25 per cent of the amount, even in a country bank, in legal reserve money. In other words, the money that is required for redemption, for the guaranty fund and the 15 per cent reserve, is equivalent to 25 per cent of the capital, and it would necessitate the bank to have $200 in legal reserve money before it could make a loan of $1,000 in credit notes. So that I do not believe this measure will tend to encourage banks to loan money for the sake of getting out the circulation. I think the banks will issue it when there is a heavy withdrawal, and actual bills are required, and they can use the same reserve against the note that they now use against their deposits, and protect the reserve of the country in that manner. Of course section 8 leaves a good deal of the plan of completing the organization, and how it shall be controlled, to the Comptroller of the Currency. You will notice it

says. "he shall require such bank to make arrangements satisfactory to him for the current daily redemption of such notes in every redemption city so designated."

The ACTING CHAIRMAN. Well, in a govenment of parties, where one stays awhile and then another comes in, and where the currency question is involved in our politics so closely, would it not be better to leave it under the control of Congress to state just what should be the kind of money to redeem it in, rather than to leave it to one man, who may have one opinion now and whose successor may have another opinion—which we find is often the case?

Mr. HAMILTON. Of course the more clearly you define anything of that kind the better the bill is.

The ACTING CHAIRMAN. I just suggest that.

Mr. McKINNEY. Suppose you add at the close of section 8, where it goes on to state that the Comptroller shall require such bank to make arrangements satisfactory to him for the current daily redemption of such notes in every redemption city so designated, "in lawful money of the United States?"

The ACTING CHAIRMAN. Well, that would put it where you would know what it was.

Mr. McCREARY. How would that affect those emergency notes, Mr. Hamilton? They could be paid in kind, could they not?

Mr. HAMILTON. I think they should be paid in kind.

Mr. McCREARY. Are they not intended to be what we consider lawful money?

Mr. HAMILTON. Yes.

Mr. McKINNEY. These notes are lawful money when you want to pay off some other bank.

Mr. HAMILTON. You see that the bank note in section 9 of the bill is given the same powers identically as the present national bank note.

Mr. GILLESPIE. The bank note is not lawful money.

Mr. McCREARY. There is where you get the confusion. We should put in there "or notes in kind."

Mr. HAMILTON. It might be better to add that.

Mr. McCREARY. And then you have it "lawful money or notes in kind," and if they have an exchange in their favor they would send back the notes in payment.

Mr. McKINNEY. Lawful money of the United States or notes in kind?

Mr. McCREARY. Lawful money or notes in kind. It does not need the words "of the United States."

Mr. GILLESPIE. Here is a definition of what lawful money is. The term "lawful money" is understood to apply to every form of money endowed by law with legal-tender qualities. This is not lawful money. It could not be redeemed in itself.

Mr. McCREARY. But if you get "notes in kind" in there would that not be true?

Mr. HAMILTON. You do not want this kind of a condition: That if I receive notes of your bank you could pay me in notes of some other man's bank.

Mr. McCREARY. No; but if you send me these emergency notes for payment, I can pay you in our notes and get rid of them in that way.

Mr. HAMILTON. I do not think that would be safe.

Mr. McKINNEY. In case you are going to redeem your notes, and liquidate or go out of business, this requires a deposit of lawful money of the United States. Why would not another provision that these be redeemed in lawful money be in line with that final provision?

Mr. WEEMS. They would not be retired at all, if you redeemed them in national-bank notes.

Mr. McKINNEY. If they were redeemed in lawful money it would be all right.

Mr. GILLESPIE. It seems to me it would strengthen your bill to put it "redeemable in gold."

Mr. HAMILTON. The committee, you understand, are not entirely hidebound to this measure. Any amendment that will strengthen it we would be glad to have.

Mr. GILLESPIE. The people do not call for the gold, but if they know it is there it strengthens the bill in the popular estimation.

Mr. McKINNEY. But what is the practical difference? With lawful money, if you define it as being only Treasury notes——

Mr. GILLESPIE. Then the Government will have to furnish the gold to retire the lawful money; but in this case the bank will have to furnish the gold.

Mr. McKINNEY. The lawful money is good for gold, if you want to get it.

Mr. GILLESPIE. But the Government has to furnish it. This would require the banks themselves to furnish the gold with which to redeem this currency.

The ACTING CHAIRMAN. Let me read you what Mr. Fowler says in his new bill in connection with this. He describes the note in these words: "National-bank guaranteed credit note. Will be redeemed upon demand over its own counter by the national bank in gold coin or its equivalent. The payment of this note is guaranteed by the fund deposited with the Treasurer of the United States." It is the only one of the bills under discussion, as I now recall, which really redeems the notes. In the others there is a burden back upon the Government to furnish the gold to redeem the notes, and if the Government has not the gold it then has to exercise its power under the law to sell bonds to get the gold with which to redeem these notes. The question is, Is that a wise measure, with that in the bill. Would it not be better to throw the burden of redeeming this currency upon the bank itself, because it issues it only when there is a necessity for it, and if the necessity arises for the issuing of it the bank should provide itself with means to redeem the money in case of stress or emergency, rather than to throw the extra burden upon the Government in time of stress or emergency to furnish extra gold with which to meet these.

Mr. HAMILTON. The bill of last year, you know, did require the redemption of the notes under section 12 in gold.

The ACTING CHAIRMAN. I was just looking that up.

Mr. HAMILTON. I have it here: "That any national banking association desiring to retire its national bank guaranteed credit notes or go into liquidation shall pay into the guaranty fund an amount of gold coin equal to the amount of its national bank guaranteed credit notes then outstanding."

Sections 10 and 11 apply to any case of a failed bank. In the McKinney bill, the one you have before you, we make these notes a first lien on the assets of the banking institution. Last year the bill provided "that the holder of any national bank guaranteed credit note shall be a general creditor of the National Banking Association issuing it." That is section 10. This year it reads, "That the holder of any national bank guaranteed credit note shall have a prior lien on the assets of the National Banking Association issuing it and on the statutory liability of shareholders."

The ACTING CHAIRMAN. Why did you make that change?

Mr. HAMILTON. We made the change on account of the criticism that arose in the minds of the people as to the security of these notes. I am frank to confess that the criticism was about equal between the national bankers themselves and those not in the national banking system. They seemed to think the section was not broad enough. I myself was one of those opposed to making such notes a first lien upon the assets of the national bank, believing that it would discredit the institution issuing it. However, there seems to be a demand on the part of the public for greater security, if possible, for the note issued. I believe that this provision is better for the banks of the country, and involves the same principle, practically, as it would to designate certain securities, and deposit those securities for an emergency circulation. It makes no difference whether you put up any class of bonds or security and require 25 per cent in excess of the amount of such securities deposited when it comes to the adjustment of the affairs of a failed national bank. If a bank should fail and be put into the hands of a receiver, the first step that will naturally be taken is to take from the assets of the institution and redeem its pledged securities. I can see no necessity for pledging the special securities for that purpose, and I believe that this section places the note holder in just as strong a position, if not a stronger one, than to have certain securities deposited with the Treasury Department. Of the measures I have seen I do not recall any of them that has a provision that such securities shall be the only security for the note issued, and, like the present bond-secured notes, I take it they would be a first lien on the assets of the institution if the Government failed to realize enough money from the sale of those securities to redeem the outstanding notes. Consequently, I think this provision is fully as safe, if not safer, than anything that has been proposed.

Mr. MCKINNEY. That is, as to the safety of this issue, you are comparing it with the notes under the Aldrich bill.

Mr. HAMILTON. I do not make any particular reference to any measure. I am simply speaking of the segregrating of special securities as security for bank notes.

Mr. MCKINNEY. That was contemplated under the Aldrich bill, as we understand it.

Mr. HAMILTON. Yes; that is what he contemplated. I believe that this provision places it within the power of the banks, without any embarrassment to the institutions, to issue these notes without being compelled to go in the market and buy certain designated securities, or perhaps lease them on a rental basis. Besides, even in times of emergency you are not depriving their customers of the help that rightfully belongs to them in order to go into the market and buy securities to be deposited.

There has recently occurred with the failure of the National Bank of North America a serious question as to what the rights of a party are who has loaned bonds to be used to secure increased circulation—whether such a party is a preferred creditor or a creditor at all, there being no provision in our national banking act for the leasing of bonds for this purpose. If there is any difficulty in getting pay for securities advanced or loaned, it will be difficult in the future to get such bonds at any price in times of a panic, and in ordinary times these securities are not needed.

Section 12 provides as to the manner in which these notes may be retired. It says that it shall be done by the deposit of lawful money.

Section 13 is the provision that in case a national bank has issued its full limit of circulation under the present law it may retire it down to 62½ per cent of its capital, or the amount contemplated in this act as the minimum amount of bond-secured circulation, without reference to the present law of $9,000,000 per month.

Now, in connection with this measure, I wish to give you some figures as to how this bill would have worked had it been in operation during the past crisis. It would have given to the central reserve cities of New York, Chicago, and St. Louis, based upon the capital shown in the September report of the Comptroller of the Currency, $60,498,750 of credit note issue. It would have given $40,332,500 of the low-taxed notes and $20,166,250 of the 5 per cent notes. It would have given to the other reserve cities, not central reserve cities, $52,729,425 of low-taxed notes and $26,364,712 of 5 per cent notes. It would have given to the 6,178 country banks, or the banks required to carry a 15 per cent reserve, $131,050,903 low-taxed notes and $65,525,451 of 5 per cent notes. It would have given to all the national banks in the country $224,112,828 of the low-taxed notes and $112,056,414 of 5 per cent notes. It would have given to the country banks $196,576,355 of both kinds of credit notes to have met the conditions that arose; or it would have given to all the national banks $336,169,242.

I also have the figures here showing what it would give to each State. Of course, you do not care to have that read, and to each reserve city.

Mr. HAYES. I would like to have the figures myself.

Mr. HAMILTON. Do you mean in any particular State?

Mr. HAYES. California.

Mr. HAMILTON. To California it would give $11,173,843.

Mr. HAYES. And New York City?

Mr. HAMILTON. To New York City it would have given $42,967,500. It would have given Chicago $10,368,750. In the clearing-house certificates issued there is a good illustration of the credit-currency proposition. Chicago authorized, I think, an issue of fourteen millions. They put out something over eleven millions. This bill would have provided for $10,368,000 that they might have issued, so it was pretty close to what they did do.

Mr. MCCREARY. What would Philadelphia have given in Pennsylvania?

Mr. HAMILTON. To Philadelphia?

Mr. MCCREARY. Yes.

Mr. HAMILTON. Eight million three hundred and fifty-nine thousand three hundred and seventy-five dollars. To Pittsburg it would have given *$10,912,500.*

Mr. McKinney. They issued largely more than that of clearing-house certificates?

Mr. Hamilton. They may have.

Mr. McCreary. What would the bill have given them?

Mr. Hamilton. This is what the bill would have given them: Philadelphia, $8,359,375; Pittsburg, $10,912,500.

Mr. McCreary. Oh, I thought that was the clearing-house certificates that you referred to.

Mr. McHenry. Do you know how much the clearing-house certificates of Pittsburg and Philadelphia amounted to?

Mr. Hamilton. I have not those figures. The State of Pennsylvania could have issued $42,162,749 in credit notes. I have the figures here for all the States, giving the number of banks, and the amount that should be issued, and also the reserve cities.

Mr. Hayes. Have you copies of that?

Mr. Hamilton. I can furnish copies of all these figures.

Mr. Gillespie. That can be printed with your remarks?

Mr. Hamilton. Yes.

Mr. Hayes. Yes; we want those.

(The statement above referred to will be found at the end of Mr. Hamilton's remarks.)

Mr. Hamilton. Now, applying these figures to banks of different characters, the criticism has been frequently raised as to the advisability of permitting the small institutions to issue these notes, in comparison with the city institutions—the safety of it, etc. Another criticism has been made that people might go into this system because of the note-issuing privileges. These criticisms really amount to nothing. The figures will not bear them out. For instance, take a bank with a capital of $25,000, which is the minimum amount. They could issue $9,375 credit notes. That is the total amount that an institution of that kind can issue under this measure. A bank with a capital of $50,000 can issue a total of $18,750. A bank with a capital of $100,000 can issue $37,500. Now, I make the claim for this bill that there is abundant security back of it to satisfy anyone if it is carefully considered. Under our present bank law a national bank with a capital of $100,000 can take out $100,000 in note issue, and all that is required of it is to deposit a 5 per cent redemption fund with the Treasury Department, or $100,000 in United States bonds and $5,000 in cash.

Mr. Gillespie. And that is a part of its reserve.

Mr. Hamilton. And that is a part of its reserve. Under the plan we have proposed, before credit notes can be issued, a bank must have a fully paid-up capital, must have been in business a year, and must have a surplus equal to 20 per cent of its capital. In other words, we are virtually increasing the capital of the institution 20 per cent before it can have this note-issuing privilege.

Mr. McKinney. In selecting that 20 per cent, is that based on the provision that now prevails that no national bank can pay dividends on its stock until it has accumulated a reserve of 20 per cent?

Mr. Hamilton. Well, we provided that without reference to the present law.

Mr. McCreary. That is the requirement, you know.

Mr. HAMILTON. We made that provision without reference to that. That was done to prevent anyone from going into the business for the purpose of note issuing.

Mr. GILLESPIE. Would that 20 per cent provision cut out many banks in the South and West?

Mr. HAMILTON. I think not. I think it would cut out very few. I have no means of knowing how that would be, without a good deal of work. They must have been in business a year under this measure.

The ACTING CHAIRMAN. I would like to ask one question. Do you know how much gold was imported into this country? I am trying to find it here, but it is all mixed up.

Mr. HAYES. One hundred and ten million dollars. You mean during the panic?

The ACTING CHAIRMAN. Yes.

Mr. HAYES. One hundred and ten million.

The ACTING CHAIRMAN. Now, do you know how much the bank-note circulation based upon bonds was increased during that time?

Mr. HAMILTON. I have no means of knowing exactly, but the bank-note issue of September was $551,949,461.

Mr. CRAWFORD. The export of gold was considerable.

Mr. HAMILTON. And the note issue as shown by the report of December 23 was $601,805,985.

Mr. HAYES. About six hundred million before——

Mr. HAMILTON. It was $551,949,000 in September and $601,805,985 in December.

Mr. MCKINNEY. An increase of $50,000,000.

Mr. HAYES. No; over $100,000,000.

Mr. MCKINNEY. No; fifty million.

Mr. HAMILTON. The report for September gives it as $551,949,461. You can take that last report and figure it very readily.

Mr. HAYES. What was the figure given in the report of December 23?

Mr. HAMILTON. Six hundred and one million eight hundred and five thousand nine hundred and eighty-five dollars.

Mr. HAYES. Oh, yes; it is $50,000,000.

Mr. HAMILTON. It was about $50,000,000 at that time. I presume it is greater now.

The ACTING CHAIRMAN. What I was getting at was to see how much the volume had been added to by gold importation and by the increase of circulation based upon bonds.

Mr. HAYES. There was some gold exportation, though, I suppose.

Mr. MCKINNEY. Yes; I suppose so.

Mr. HAMILTON. These are the only figures I have on the subject.

The ACTING CHAIRMAN. Mr. Hill has just suggested to me that, based upon the bond-secured circulation and gold imports during the financial trouble, the amount will be a trifle short of $200,000,000.

Mr. HILL. And the national-bank circulation outstanding on the 1st day of January was $690,000,000.

Mr. HAMILTON. That makes it $140,000,000.

The ACTING CHAIRMAN. And taking it on the 1st of February you will find it more than that, I think.

Mr. HILL. I think not.

Mr. HAMILTON. That is an increase of approximately $140,000,000 in the national-bank circulation.

The ACTING CHAIRMAN. Do you mean on top of your one hundred and ten millions of gold?

Mr. HAMILTON. Yes.

The ACTING CHAIRMAN. No; if there were $110,000,000 of gold——

Mr. HAMILTON. That last statement the gentleman [Mr. Hill] presented there shows it to be about $140,000,000 more. He said $690,000,000.

The ACTING CHAIRMAN. That is based upon the bank circulation. That is the bank circulation. That is not the gold importation at all.

Mr. HILL. It had nothing to do with it at all.

Mr. HAMILTON. But that is an increase of $140,000,000.

Mr. HAYES. That is $140,000,000. That is extraordinary.

The ACTING CHAIRMAN. Of course you mean, if there had been $336,000,000 issued in that time?

Mr. HAMILTON. Yes; it would have prevented this condition.

The ACTING CHAIRMAN. And not wait until a later time.

Mr. HAMILTON. Yes. The security back of the notes issued, if our plan was a law, would be as follows: Taking a bank with a capital of $100,000 as the basis to figure upon, they would have $62,500 in bond-secured notes, or in Government bonds. They would have a 5 per cent redemption fund with the Treasury Department, amounting to $3,125; a 5 per cent redemption fund for credit note, $1,875, and a 5 per cent guarantee fund for credit note, $1,875; the legal reserve fund required to be carried would be $5,625; you also have 37½ per cent of capital of the institution that is not invested in Government bonds, but is a general asset of the banking institution, which strengthens the asset of your bank to that extent; you have also the 20 per cent of surplus required, which would increase the assets $20,000. I take it that we have every right to consider this portion of the capital and this surplus as that much additional security in comparing the present banking law with the one we contemplate. In other words, that would give us $132,500 in securities to meet $100,000 in note obligations.

Now, as to the security back of the smaller or the country banking institutions, I have made special inquiry as to the country banks, and I find that the average responsibility of the combined stockholders of banks with capital of $25,000 is upward of $350,000, and that they own, generally speaking, in real estate on an average of 3,300 acres to each institution.

Mr. WEEKS. How did you get at that information?

Mr. HAMILTON. I sent a special letter to the banks individually, and had them fill it out.

Mr. WEEKS. In Illinois, do you mean?

Mr. HAMILTON. I sent it all over the United States.

Mr. COX. These tables Mr. Hamilton prepared, himself, certainly three months ago.

Mr. PUJO. How did they get that real estate?

Mr. HAMILTON. I simply sent a circular letter to these banks asking them to furnish me with that information in a general way.

Mr. PUJO. The average bank you say owned how much?

Mr. HAMILTON. Three thousand three hundred acres, with a capital of $25,000.

Mr. PUJO. Each of the country banks?

Mr. HAMILTON. Each of the country banks with $25,000 capital. That is, on an average.

Mr. PUJO. They show, then, evidently bad loans, because they are only permitted to acquire real estate in collection of a bad loan.

Mr. HAMILTON. Do not misunderstand me. This is simply the real estate owned by the individual stockholders, in order to get at the responsibility of the institution and the security to the note holder, or to the additional liability equal to the amount of the capital.

Mr. PUJO. Did they furnish you with the legal exemptions of each stockholder in those banks, under the homestead laws of his State, as to whether or not this real estate was part of his homestead?

Mr. HAMILTON. Oh, no. It was simply general information that they furnished me in this connection.

Mr. WEEKS. Did you ask whether that real estate was encumbered or not?

Mr. HAMILTON. I asked them what the individual responsibilty of their stockholders was above liabilities, and that is how we get the figure of upward of $350,000 to the institution.

Mr. PUJO. Your bill contemplates a guaranteeing of deposits?

Mr. HAMILTON. No; it does not.

Mr. PUJO. Do you believe in guaranteed deposits?

Mr. HAMILTON. I do not.

Mr. HAYES. Will you tell us why, briefly.

Mr. HAMILTON. My objection to the guaranteeing of deposits is that I believe the banking system of this country should encourage the building up of the capital and surplus of your institutions. The guaranteeing of deposits would incline the management of the institutions to keep their capital at the minimum required in the different cities.

Mr. HAYES. And pay out all their surplus in dividends?

Mr. HAMILTON. And pay out their surplus in dividends.

Mr. PUJO. That would be an advantage to the people, to get their money back to spend.

Mr. HAMILTON. Well, they get it in the way of loans.

Mr. GILLESPIE. Yesterday I heard a gentleman of a great deal of prominence make another answer to that argument. He said that he did not think that the capitalization of banks should be reduced, because the big banks had heavy customers, and under the 10 per cent limitation of loans to one customer they would have to have a heavy capitalization.

Mr. HAMILTON. That throws an additional burden on those larger institutions in the way of responsibility for the weaker or irresponsible banks, and it encourages every man in that particular class of banking to go out and advertise for accounts, etc.; and even though the public may know the institution is shady, and the management of the institution is shady, yet he can say: "Here, our institution is just as good as the biggest institution in a commercial center, because the Government is back of all our deposits."

Mr. PUJO. I would like to go just a step further for my own information, and possibly for that of some members of the committee,

on this question of the Government guaranty. It is being advocated by both Republicans and Democrats now, and if any such matter might ever come to be a partisan matter——

Mr. WEEKS. You mean by some Republicans and some Democrats.

Mr. PUJO. Well, some of both, but not all. If the Government were to guarantee the deposits by any scheme that might be devised and enacted into law, would it not have a tendency to have all depositors of savings banks, trust companies, and State banks transfer their deposits to the national banks, unless similar protection were afforded to the various State institutions that I have mentioned?

Mr. HAMILTON. I do not look upon that with the alarm that most people do in that connection. Now, I am not a national banker myself. I am a State banker and a private banker, and I think that, while there will be perhaps some withdrawals, the well-established State institutions and well-established banks of any kind will hold the bulk of their business; and it would lead to this, in my mind: That the State institutions, perhaps, might have to offer a little extra inducement, or something of that kind, equivalent to what would be required of the national institutions to establish this guaranty fund; and they would do it, saying to their customers, "You have known us for years, etc., and we prefer to give you the benefit of this rather than the Federal Government."

Mr. PUJO. Assuming, now, that such a plan should be enacted into law, and that the State legislatures would enact legislation similar to that enacted by the National Government affording every protection as to guaranty, inspection, and other methods of supervision of the affairs of the bank, do you not believe that the average man would prefer to have the guaranty of the United States Government behind his deposit rather than that of a State?

Mr. HAMILTON. Well, that would simply be a guess on the part of the party answering.

Mr. PUJO. Is it not socialism to have the Government protect anybody's deposit, either State or national, in banks?

Mr. HAMILTON. I do not think it is good policy.

Mr. PUJO. Is it not socialism or centralization?

Mr. MCCLEARY. Paternalism.

Mr. PUJO. Yes; socialism or paternalism.

Mr. MCKINNEY. If you give that protection to the depositor, why can you not equally well permit the banks to go to the Government to guarantee the loans they make?

Mr. HAYES. Oh the merchant to guarantee his accounts, his bills?

Mr. MCKINNEY. Yes.

Mr. WEEKS. I would like to ask one question in connection with that. Do you think that the record of bank failures up to this time would be any guide to further bank failures in the future, if such a policy were adopted?

Mr. HAMILTON. Do you mean as to the guaranteeing of deposits?

Mr. WEEKS. Yes.

Mr. HAMILTON. I do not think you could base it upon that at all, because I have an idea that this would lead a great many into offering inducements, and the competition would lead them into unsafe banking.

Mr. WEEKS. You think it would increase the number of bank *failures*, do you?

Mr. HAMILTON. I think it would have a tendency to do that. That would be my opinion.

Mr. MCKINNEY. Under a system where all bank deposits were guaranteed by the Government or guaranteed by the united banks, would it not lead to some method of competition between the individual banks through which the bank that offered the greatest inducement would naturally get the greater amount of business?

Mr. HAMILTON. I think it would, and I think that is wherein the danger lies—that one set of bankers would adopt a policy that conservative institutions would not adopt.

Mr. MCKINNEY. And that would be the bank that would secure the business, because all the banks would be behind it.

Mr. HAMILTON. All the banks would be behind it, and they would use that leverage to get business.

Mr. HAYES. And they would get it, too.

Mr. MCHENRY. Are you in favor of postal savings banks?

Mr. HAMILTON. I am not in favor of postal savings banks, so far as any bill that has been brought to my attention is concerned.

Mr. GILLESPIE. With the Government paying 2 per cent on deposits?

Mr. HAMILTON. It is not the question of paying 2 per cent on deposits that I object to, but it is the principle involved in these measures, where it is provided that all such deposits made with postal savings banks are not subject to any legal process and are not subject to taxation. That is a very dangerous feature for the country, and it would, in the smaller institutions where there is a tendency in localities to escape taxation, take a large per cent of business away from those institutions. That is the principal objection to the measures that has come to my notice. Of course the investment of the funds in the bonds of municipalities of 20,000 and upward, and things of that kind, are objectionable to the smaller places; but the great danger that I see in the postal savings bank measure is along the lines I have stated—that is, so far as the bills that have come to my notice are concerned.

Mr. HAYES. You are familiar with the general character of what is called the Aldrich bill, I suppose. What do you think about the bond-secured circulation provided for by that?

Mr. HAMILTON. The difficulty in answering your question in that connection is that I do not know which edition you refer to. You see they are getting out a new amendment almost every day. The original bill I was very much opposed to, and I guess you all received a circular letter from me, if you take occasion to look it up. My objection was that there are comparatively few cities, in proportion to the number in the United States, that have bonds that are acceptable for that purpose; and I believe that 232, or something of that kind—I know it was 12 in the State of Illinois——

The ACTING CHAIRMAN. Senator Aldrich has reported, on January 30, 1908, the bill with an amendment. Perhaps you have not seen it.

Mr. HAMILTON. I have not seen that bill. I do not want to criticise that bill, for I do not know anything about it.

Mr. HAYES. Let me ask you this question, in a little different way, because I would like to get your opinion on it. Suppose all those rerequirements were wiped away, what then would you say in regard to it? I mean to say, suppose all municipalities, without reference to

their size, school districts, and everything, could be accepted for circulation, provided they had not defaulted in the interest.

Mr. HAMILTON. I think there should be some additional requirement in excess of that. For instance, there should be a limit to the bonded indebtedness in proportion to the valuation of the communities, etc. There should be something of that kind.

Mr. HAYES. Even with that, what would you say about that sort of currency?

Mr. HAMILTON. You mean as to whether it would be effective or not?

Mr. HAYES. Yes.

Mr. HAMILTON. I do not believe that the Aldrich bill, or a bill along the line that it contemplates, would be the means of preventing panics. I believe it would give us a good, safe, secure currency that could circulate, but I think that under any provision I have seen of it yet it would be too lengthy and cumbersome to do much good before the patient would be in a helpless condition.

Mr. HAYES. In other words, you think the house would be burned before you could get the fire engine out?

Mr. HAMILTON. Yes.

Mr. GLASS. Right on that point, do you think the Aldrich bill, even in a time of emergency, would afford any great amount of relief to the banks of the South and the West? In other words, are not most of the banks in the South and West, the interior banks, up to their limit on circulation now? Are not all the small banks up to their limit on circulation?

Mr. HAMILTON. I think not all of them; but of course the reports of the Comptroller show that up to the beginning of this trouble they had about 60 per cent.

Mr. GLASS. All the banks?

Mr. HAMILTON. Yes; outstanding.

Mr. GLASS. But I mean the banks of the South and the West.

Mr. HAMILTON. As to the smaller institutions, I could not tell you what the figure is, because I do not know. But we have provided in this measure we are presenting here that they can reduce the circulation down to $6\frac{1}{2}$ per cent of their capital and avail themselves of this emergency issue if they wish to do so.

Mr. WEEMS. Here is something that I would like to know about the Aldrich bill. Suppose you could operate under it in five minutes, and you had a currency famine in a bank, and you could not borrow securities and had to buy them. How would it relieve the currency famine, as far as that bank is concerned?

Mr. HAMILTON. Well, that bank, of course, would be as helpless under those conditions as banks are under the present condition when they have to secure Government bonds to relieve themselves.

Mr. HAYES. It would take good money to do it.

Mr. HAMILTON. Yes; I do not believe you can expect institutions to carry the class of securities to be put up.

Mr. HAYES. You could not expect them in the West to do it.

Mr. WEEKS. Do you think they ought to do it anyway? Do you think that is part of the business of a national bank to buy, own, and carry securities?

Mr. HAMILTON. I think they should be limited in what they do in that respect.

The ACTING CHAIRMAN. In order to avail themselves, under the provisions of the Aldrich bill, to the full extent, would they not have to purchase bonds of the kind mentioned in his bill, to the extent of $500,000,000, before a panic had come upon the people?

Mr. HAMILTON. To the extent of $500,000,000; yes.

The ACTING CHAIRMAN. Then to that extent $500,000,000 of the money of the banks is tied up, is it not?

Mr. HAMILTON. Yes.

The ACTING CHAIRMAN. Then when the trouble came, if they wanted to issue currency upon that $500,000,000, they could only issue currency on part of it, to the extent of 75 cents on the hundred; and one-fourth of that money would be tied up, when it ought to be let loose?

Mr. HAMILTON. Yes.

The ACTING CHAIRMAN. And the balance of the money that was not tied up in that kind of security could only be issued to the extent of 90 per cent; so that in a time of stress they are worse off than they are in a time of prosperity.

Mr. HAMILTON. Yes. The outline of the Aldrich bill, that I saw this morning, provided that they could issue 90 per cent instead of 75.

The ACTING CHAIRMAN. Seventy-five per cent on railway bonds.

Mr. HAMILTON. The great trouble with the Aldrich measure, as I see it, is that for about 6,000 banks in the United States it would be practically useless.

Mr. HAYES. Or it would compel those banks to go to Wall street and buy those securities.

Mr. HAMILTON. It would compel them to buy and carry those securities. They will not do that to protect themselves now in an emergency. They will not carry Government bonds. If they had been available, and they had had the $300,000,000 necessary to issue the additional circulation that they had margin to do, you would not have needed any emergency circulation.

Mr. MCKINNEY. In order for a bank to be sure to be able to avail itself of the provisions of the Aldrich bill, would not that bank have to begin and, as it might be able to do so, acquire this class of securities—all these little local bonds— and carry them as assets in order to have them when suddenly the emergency would come up?

Mr. HAYES. Mr. Hamilton says they would not.

Mr. MCKINNEY. Would it be wise for any commercial bank to load itself down with that sort of slow assets?

Mr. HAMILTON. I think not, for a country bank.

Mr. GLASS. Do you know of a trunk line of railway in the South whose bonds would be made available for use under the Aldrich bill, which requires that each railroad shall have paid interest for a period of ten years on all of its capital stock?

Mr. HAMILTON. I do not know of any railroad security in any section that could meet that requirement, but I presume there are such railroads. I have no means of knowing. That is information that I have not been able to get.

Mr. PUJO. That is to be corrected by amendment. Senator Daniel submitted an amendment on that, so as to protect the railroads in the South.

Mr. HAYES. If the Aldrich bill should become a law and a certain class of securities should be taken to the extent of $500,000,000 for

circulation, in your opinion would not that have the effect of giving a fictitious value in the market to those securities?

Mr. HAMILTON. It would naturally strengthen the market for them.

Mr. HAYES. Would it not raise them in value?

Mr. HAMILTON. Well, I am rather of the opinion that it would, but the quantity of them may make some difference.

Mr. HAYES. It would certainly make a market in case of emergency for that many bonds.

Mr. McCREARY. A Government 2 per cent bond, without its value as carrying circulation, would not sell for more than 80, would it?

Mr. HAMILTON. I think not.

Mr. McCREARY. Seventy-five. Now, if it raises a Government bond, with the Government back of it, from 75 to 104, or 108½ or 109, as it did recently on a 2 per cent basis, what would it not do under the same conditions with municipal bonds and railway bonds and such things as that on a 4 per cent basis? It would give them a fictitious value, simply because they carried with them the right of taking out circulation.

Mr. HAMILTON. I do not think it would inflate them in the same proportion, though, that it would inflate the Government bond, for the reason that there would not be the contemplated use of as great a number of them.

Mr. McCREARY. Would not the effect be, if there were more to be inflated, that the Government at large would suffer more than under the Government bond which is an assured thing, by reason of taking a railroad bond which has a very changeable sort of value?

Mr. HAMILTON. One of the difficulties in putting that measure into operation is that these securities are to be taken at a certain per cent of their market value. Now, what that market value might be in ordinary times and what it might be in times of a panic would make a whole lot of difference. Whether they have covered that in their bill or not I do not know.

Mr. McCREARY. Is it not a fact that in this late panic bonds of good intrinsic value had not any market value, comparatively speaking, and was not that one reason for desiring to help things out, to increase the collateral value of those bonds, because if they went beyond a certain point the collateral value of the bonds would be swept out, and the people of the country at large and the banks would get into trouble?

Mr. HAMILTON. Yes.

Mr. HAYES. How long have you been engaged in banking, Mr. Hamilton?

Mr. HAMILTON. How long have I been engaged in banking?

Mr. HAYES. To put it a little more directly, does your knowledge and memory run back to the days in Illinois and Indiana when they had the red and yellow dog currency?

Mr. HAMILTON. No, sir; I was born in 1862.

Mr. HAYES. But you may know in other ways in regard to it. I have seen various statements. That was a bond-secured circulation, was it not?

Mr. HAMILTON. In some States, yes.

[illegible] HAYES. Indiana and Illinois I speak of.

[illegible]TON. I think it was.

Mr. HAYES. But the weakness of it was that the banks did not have the gold to redeem it, as I remember it.

M. HAMILTON. Yes.

Mr. HAYES. I have not looked at this bill as amended, but do you not think that the Aldrich bill has something of that weakness?

Mr. HAMILTON. I can not tell. I have not had a chance to read it carefully.

Mr. HAYES. It does not provide for 5 per cent or any other gold to redeem it.

Mr. HAMILTON. I have not had a chance to read it carefully.

Mr. HAYES. Well, suppose it did not provide any fund to be put up by the Government to redeem those notes in gold. Would not that be such a weakness as that in times of stress it would be likely not to circulate?

Mr. HAMILTON. It might possibly discredit the notes. Of course if you have a 5 per cent guaranty up, it will strengthen the notes. Your question suggests another matter to my mind, and that is this: There has been a demand that State institutions be permitted to issue circulating notes under some provision. I am a State banker, and vice-president of such an institution, yet I do not believe that such a measure is a safe measure for this country to adopt. I think it would tend to lead us back to those conditions that formerly existed, because of the lack of uniformity of the different State laws—not on the ground that they are not safe, solvent, and sound State banking institutions. They are just as safe and strong as the national institutions, but the diversity of laws would make it dangerous for such a measure to be enacted.

Mr. PUJO. Could not all this trouble be obviated by the repeal of the limitation which permits retirement up to $9,000,000 a month, so that the national banks of this country could take out $300,000,000 additional if they desired to prevent panics in the future, and pay the impost or duty due the Government thereon for actual circulation?

Mr. MCKINNEY. The difficulty would be that they could not secure the bonds, would it not?

Mr. PUJO. I want him to answer this question first. Could not all this trouble be obviated if the authorized circulation be taken out, if the banks were willing to pay half of 1 per cent duty?

Mr. HAYES. And repeal the limitation?

Mr. PUJO. Repeal the limitation of $9,000,000 a month entirely.

Mr. HAMILTON. It would tend to make the currency of the country more elastic; but there is danger of the retirement too rapidly of the bond-secured circulation, which might work disastrously.

Mr. PUJO. Are you aware that it has been argued by the national banks of the country that the entire circulation was not taken out, primarily, because it was not sufficiently profitable, and, secondly, because they could not retire it when they had no more use for it?

Mr. HAMILTON. Yes.

Mr. PUJO. Would $300,000,000 additional, to be a permanent addition to the circulating medium of this country, be sufficient to prevent the ordinarily recurring panics, such as we have had?

Mr. HAMILTON. I think that would be sufficient. The best illustration of that is from the report of the Secretary of the Treasury, just published. It says—I have it here—that the total issue was $296,125,469.

The ACTING CHAIRMAN. That is the total issue at what time?

Mr. HAMILTON. During this recent disturbance.

The ACTING CHAIRMAN. How much?

Mr. HAMILTON. $296,125,469.

Mr. HAYES. That is the circulation.

The ACTING CHAIRMAN. I want the additional circulation, by national-bank notes.

Mr. HAYES. It is $140,000,000, in round numbers.

Mr. HAMILTON. The report says: "The amount of currency which disappeared from sight during this period, substantially, as can be ascertained from national-bank reports and other sources of information, was about $296,125,469, as follows;" and then he gives the dates.

The ACTING CHAIRMAN. That is the disappearance?

Mr. HAMILTON. Yes.

The ACTING CHAIRMAN. But how much was added?

Mr. GLASS. There were but $97,000,000, Mr. Hayes, as I understand it.

Mr. HAYES. No; $140,000,000.

Mr. GLASS. Of increase in national-bank circulation?

The ACTING CHAIRMAN. And there were one hundred and ten millions of gold?

Mr. HAYES. The last statement, issued on the first of January, shows $140,000,000.

Mr. PUJO. Would it or would it not be practicable to require national banking associations to take out and put into circulation an amount equal to their capital stock, as well as a percentage of it, as we now require under the law?

Mr. HAMILTON. You mean to force them to issue nine hundred millions?

Mr. PUJO. To force them to issue an amount equal to their capital stock.

Mr. HAMILTON. I do not believe that would be a good policy to be adopted, for the reason that you have immediately caused an inflation of that much money or notes into our currency system, and an inflation to that extent is more dangerous than to leave the law as it now is.

Mr. PUJO. Why would that be an inflation, if such circulation were secured by Government bonds, and even their capitalization, when the issue of a credit-secured note by a bond is not an inflation, when we need two hundred and fifty million or three hundred million more dollars to meet the business of the country?

Mr. HAMILTON. If you compel the issue of it you compel an inflation if you issue on the credit. In note issuing, for instance, as we have proposed it, it is optional with the institutions as to whether or not they issue such notes, and such an issue would only be in proportion to the demands of the actual business necessities of the country.

Mr. MCCREARY. Right on that line, I would like to read this:

On December 3, 1907, a prominent bank in New York City had deposits of Government money to the amount of $4,225,000; the same bank at the same date had an outstanding circulation of $139,000; the ability of said bank to take out circulation amounted to $3,000,000.

On December 3, 1907, a prominent bank in Philadelphia had Government deposits of $200,000; at the same date it had national-bank notes outstanding, $1,000,000; its ability to take out circulation amounted to $1,000,000.

From a study of these figures it will be seen that the distribution of Government moneys as between these two banks was not only grossly unjust, but that it had no relation whatever to the circulation taken out, which might be supposed to be a prime consideration moving the Government in the deposit of its funds. Certainly the official utterances from Washington during the past two months have been fraught with advice and exhortation to the banks to take out circulation. So much for rhetoric; but the practical application of this advice would seem to have been quite in an opposite direction.

When it was recently proposed to issue additional circulation under extremely favorable conditions of profit to the banks, only those banks which had not done their full duty in taking out circulation up to the legal limit were able to avail themselves of the opportunity. Here, again, there has been the clearest inducement created that in the future national institutions shall keep their quota unfilled until conditions force the Government to offer a premium for the performance of a plain duty to the community.

Mr. GLASS. That is absolutely true, too. It came under my personal observation.

Mr. HAYES. Mr. Hamilton, I want to ask you—and perhaps you will regard it as a remarkable question—what you would think of a proposition of this kind: To permit national banks to take out circulation in times of stress, under a high tax, without putting up bonds or any additional security other than to make the note the first lien on the assets of the bank, something after the manner they do in Germany?

Mr. HAMILTON. I would want to see your bill drafted before answering that.

Mr. HAYES. You see what my thought is?

Mr. HAMILTON. Yes. I doubt whether it would be advisable or not. It would depend on the draft of the bill.

Mr. HAYES. Do you think if such a bill could be prepared that it would be safe and proper and all right?

Mr. HAMILTON. Of course, I would hardly know how to answer that question. There should be some reserve, I think, carried against the note.

Mr. HAYES. Suppose that reserve were just as you have suggested, that any bank that has 20 per cent reserve fund might issue up to 20 per cent of its capital stock, by paying a 6 per cent tax on it in times of stress without putting up anything?

Mr. HAMILTON. And no additional legal reserve required to meet it?

Mr. HAYES. Keep a legal reserve, of course, but not put up anything else with the Government.

Mr. HAMILTON. That is a good deal along the same line that is the basis of our measure, with the exception that you go beyond the capital, and we try to confine it to the capital of the institutions.

Mr. HAYES. I mean a currency that could be taken out without putting up a fund or doing anything except to pay the tax to the Government while it is out.

Mr. HAMILTON. Who would determine the necessity of issuing it?

Mr. HAYES. Let the bank determine it, if it wanted to pay the tax.

Mr. HAMILTON. Well, if a bank issued that circulation in excess of its capital, and had its full quota of circulation outstanding, that bank would immediately become discredited for so doing.

Mr. HAYES. Why would it, any more than it would under the Aldrich bill?

Mr. HAMILTON. The Aldrich bill will discredit the bank issuing it on account of the high tax.

Mr. HAYES. Then why would it any more than your bill, if the currency was different in form from the present bank currency?

Mr. HAMILTON. Because we are limiting ours to the amount of the capital. We expect a limited amount of the currency to be constantly in circulation, and the public will become familiar with it, as it is now familiar with the bond-secured bank notes.

Mr. HAYES. Yes; but if there was a 20 per cent reserve behind these 20 per cent notes, and the reserve was like every other obligation of the bank, and the notes were issued just like our present national bank circulation, the public would not know whether it was in excess of the capital or not.

Mr. HAMILTON. It is bound to show in any statement made by the banking institution.

Mr. HAYES. Oh, yes; it would show in the statement; that is true.

Mr. HAMILTON. And the public would become aware of it. If you took a reserve city that would show in the weekly statement, and the institution would instantly become discredited?

Mr. HAYES. Well, the other would show, too. Your circulation would show.

Mr. HAMILTON. Our circulation would show, but the low tax prevents the discrediting of the institution. A high tax discredits the bank issue. You are requiring an additional 20 per cent there to the amount of issue, and it is the additional 20 per cent of security in some form or other that increases your rate of tax one-fifth:

Mr. HAYES. Could it be avoided in this way? Leave it with the Comptroller of the Currency in the Treasury to say whether the banks be permitted to issue them or not, as a condition for not making the tax so high. Would that change the situation any?

Mr. HAMILTON. When you come to that feature I think you are putting a tremendous responsibility on that Department, in the constant demands from all over the country where rates of interest are high, and so forth, for the privilege of this emergency circulation.

Mr. HAYES. That is true.

Mr. HAMILTON. In other words, you are putting them into the banking business.

Mr HAYES. How is that?

Mr. HAMILTON. You are putting that Department into the banking business.

Mr. HAYES. It is there now, so far as that is concerned.

Mr. MCHENRY. Would it not be just as profitable for a national bank to take out this currency at $2\frac{1}{2}$ per cent as it is for it to receive deposits at 3 per cent?

Mr. HAMILTON. It would be profitable if you could keep the currency out, of course, because you are carrying the same reserve; but our contention is that it is not possible to keep the currency in circulation at all times and all seasons of the year.

Mr. MCHENRY. Do you think there are times when we have more currency than we can profitably use?

Mr. HAMILTON. Yes; that is unquestionable. It piles up in the reserve cities by the millions.

Mr. MCHENRY. If your bill was in force now do you not think that *a greater portion* of this issue would be taken out immediately?

Mr. HAMILTON. I should think it would be; yes.

Mr. McHENRY. Do you not believe, still further, that six months from now when business gets to going on, and there is a new boom, there will be even greater need for it than there is to-day?

Mr. HAMILTON. I think you will find inside of six months that you have too much currency now, and that you have an inflation in this country.

Mr. McHENRY. You will if the business depression keeps up; yes.

Mr. HAMILTON. We are in course of liquidation right now, you know, and I think you will find that the interest rates will swing the other way; that there will be an overabundance of money in a short time on account of the financial depression that has been brought to bear in this country; and that comes about, of course, on account of the disturbance of our business conditions. Every manufacturing institution and every line of business has curtailed its business now, and there is one of the greatest troubles with our banking system to-day. It is that it tends at certain periods of years to cause distrust in the minds of the public, has a tendency to cause them to hoard their money, and through the inelasticity of our system the people are compelled to pay excessive rates for money that they use in different seasons of the year. If you had an emergency circulation the rates of interest in this country would be more uniform the year round, as is the experience in foreign countries where they have such circulation.

Mr. GILLESPIE. You mean a credit currency circulation, and not an emergency circulation?

Mr. HAMILTON. Yes.

Mr. McMORRAN. Will not that continue as long as the Government continues in the banking business?

Mr. HAMILTON. How do you mean in the banking business?

Mr. McMORRAN. That is, this demand for currency at certain periods of the year is more apt to occur under the present system of our banking system than it would under some other. In other words, the Government to-day locks up large amounts of the people's money, and at a period of the year when the country is demanding currency, it is locked up in the Treasury vault instead of being deposited in national banks. If it was out of that business entirely, and we had some form of currency elastic in itself, would it not fit the needs of the Government very much better than the present system?

Mr. HAMILTON. The plan we advocate would give us this elastic condition, and would meet the conditions that are occasioned by the Government locking up its surplus money from time to time. It would help to relieve that situation.

Mr. McMORRAN. One might offset the other.

Mr. HAMILTON. Well, when the Government pays out its money the emergency circulation would naturally be retired, and you would have a sort of governor between the two.

Mr. McHENRY. Do you not believe it would be better to have a graduated tax upon this money? For instance, advancing the rate to a certain point if it is kept out four months, and advancing it a little higher if it is kept out six months, in order to force it back and compel elasticity?

Mr. HAMILTON. Well, when you adopt a graduated tax, you change the entire nature of your bill and throw the responsibility as to the

necessity, the time, and the amount of issue upon some individual, the Comptroller of the Currency or Secretary of the Treasury, perhaps.

Mr. HAYES. You might make it a graduated tax for the amount that is out. That might make it a little more certain to be elastic. Suppose you begin with $2\frac{1}{2}$ per cent and issue 10 per cent of that, and for the next 10 per cent raise it.

Mr. HAMILTON. That must depend upon the length of time it shall stay out, and so on. It makes additional complication.

Mr. MCKINNEY. You believe, do you not, that there is and has been under ordinary conditions at the crop moving time of the year in this country an inadequate amount of circulating medium?

Mr. HAMILTON. Why, that has been demonstrated fully. It is estimated that from one hundred and fifty million to three hundred million is required annually.

Mr. MCKINNEY. In this last trouble that we passed through there was at no time any criticism of the money that was in circulation? No one was afraid of the money?

Mr. HAMILTON. No; they were glad to get it.

Mr. MCKINNEY. And there was no criticism. Well, do you not believe it is almost as important, if not fully as important, in trying to remedy the situation, and to supply more money, that we should supply a quality of money that would in no way raise a suspicion as to its value?

Mr. HAMILTON. Yes, sir; that is very important.

Mr. MCKINNEY. Do you believe, under the provisions of this bill that your Commission adopted, that there could be any suspicion of the currency? Can you figure out in any reasonable way how any note holder could lose?

Mr. HAMILTON. No; I can not possibly do so. Another argument in favor of our measure as compared with a bond-secured currency measure—and it has been fully demonstrated in my mind from the figures that were presented a little while ago—is that in September we had $551,000,000 of bond-secured circulation, and up to December 23 they were only able to increase that circulation $50,000,000; and on January 1, I believe, the statement that the gentleman presented here showed that they had an increase of $190,000,000. That was after the trouble was mostly over.

Mr. HAYES. One hundred and forty million dollars?

Mr. HAMILTON. Well, the sum total would be $140,000,000. It would have been $93,000,000 from December 23 to December 31, so it showed that that method of handling it, determining values and getting securities, is a very slow process.

Mr. HAYES. Six hundred and ninety-one million dollars on the 1st of January and $451,000,000 on the 1st of September. Were not those the figures?

Mr. HAMILTON. Five hundred and fifty-one million dollars in September.

Mr. HAYES. That would make $140,000,000 increase.

Mr. HAMILTON. One hundred and forty million dollars.

Mr. HAYES. And all but about $50,000,000 of it in the last week of the year.

Mr. HAMILTON. I do not want to take up all your time, Mr. Chairman——

Mr. GLASS. Let me ask one question right there. Can you tell me how the Aldrich bill, with its emergency currency taxed at 6 per cent, could afford any relief in the crop-moving period?

Mr. HAMILTON. I do not believe that a high-tax bill would ever be of any material advantage to give us a currency at that time—a bond-secured currency.

Mr. HAYES. I think your suggestion is correct, that the minute the bank takes out that high-taxed circulation there will be a run on it. That is about the situation. It will be a flag of distress right off.

Mr. HAMILTON. If it were announced to-morrow that New York was going to issue that kind of notes all of us fellows in Illinois would commence to transfer our balances.

Mr. HAYES. You would be foolish if you did not.

Mr. McKINNEY. Now, let us take the practical workings of the different bills. Under the present system of national banks, when this crisis came on, they were unable to avail themselves in many instances of the privilege of taking out notes on account of the fact that they would have to take out more money for the Government bonds to secure the circulation than they would secure notes after they had bought them. It would place them in a worse condition, as far as available cash was concerned, than they were in before; and I can not see but what that same criticism would apply measurably to the Aldrich bill.

Mr. HAMILTON. It will, if they wait until the time of panic to procure them.

Mr. McKINNEY. Well, under your bill—I should say my bill——

Mr. HAMILTON. Yes; it is your bill.

Mr. McKINNEY. Under my bill you could secure circulation, and under this limit of taxation, putting up 5 per cent, and all that, to a greater amount than you pay out, you would be better off than you were before.

Mr. HAMILTON. You could meet the emergency.

Mr. McKINNEY. You would get more money on hand through that method, although you would have to pay to get the advantage of that.

Mr. MORRAN. How do you figure that out? Suppose you want one hundred municipal bonds——

The ACTING CHAIRMAN. He is talking about his bill, and not the Aldrich bill.

Mr. McKINNEY. Under the present plan, as you can see, I would have to buy Government bonds to get the circulation, and I would have to pay the premium that would prevail, and then I would be allowed the amount of the face value of the bonds. I have paid out a percentage more in premium than I would get; so I would be worse off than before I availed myself of it. Under this bill I would not have to buy any bonds.

Mr. HAMILTON. Before you close your meeting, gentlemen, I want to make this suggestion to you. It is simply a suggestion as to the strength of this measure in the mind of the public. I am satisfied that if this committee will report this bill to the House with any slight modification that may be deemed advisable, you will be surprised at the support it will have from every section of this country. This measure is like everything else of the same nature. In times of prosperity the people paid no attention to its advocates, or those advocating such measures. They had plenty, and did not think they

could in any wise be affected by a panicky condition. Even since the meeting of our convention at Atlantic City the conditions have changed, as you Members of Congress all know. There are more students of finance in the United States than you ever dreamed of. Now the people have become alive to the situation, and I could furnish you letters by the thousand, if you had the time to consider them, indorsing this measure, and backing up the position taken by your committee last year. The people of the country are alive to the situation, and they are demanding that some kind of legislation be had.

Mr. HAYES. That is true.

Mr. HAMILTON. And another thing in connection with it. One of the strongest features in connection with the proposed legislation is that it can be put in operation without disturbing a single condition that exists, and it is optional with any banking instituton whether or not it ever avail itself of the privileges in this measure.

Mr. HAYES. In other words, it is there if they need it?

Mr. HAMILTON. It is there if they need it.

Mr. MCMORRAN. I do not believe you will ever get any bill through this House until the members from the different districts hear from their constituents. Now, when the bill was introduced at the last session of Congress, I did not get a single letter from my district relative to the bill; and I inquired of the different members of my delegation, and not a single letter had they received.

The ACTING CHAIRMAN. And this same bill was introduced, practically, and argued on the floor.

Mr. MCMORRAN. Yes. Now, until there is some pressure brought to bear from every section of the country, on every Member of Congress, I do not believe you will succeed in getting a bill through the House.

The ACTING CHAIRMAN. I think only two of us spoke on the bill, Mr. Fowler and myself, about a year ago. Now, let me ask you one further question. Suppose we should see fit, as a committee, to make your notes redeemable over your own counters, or in some redemption agency, in gold——

Mr. HAYES. Or with the Comptroller of the Currency, the Treasury Department.

The ACTING CHAIRMAN. Well, wherever it should be, redeemable in gold.

Mr. HAMILTON. We would not have any objection to that whatever.

The ACTING CHAIRMAN. That is throwing the burden upon the banks to redeem their own money in gold if they issue it.

Mr. HAMILTON. Yes, if it is demanded.

The ACTING CHAIRMAN. And if they do not issue it under the provisions of the law, then there is nothing to relieve—instead of adding to the burden now placed upon the Government to maintain all its money upon a gold basis.

Mr. HAMILTON. Our commission would not object to that.

The statement referred to in Mr. Hamilton's remarks is as follows:

The following is the amount of credit notes that could be issued in each of the following States under the law proposed by the currency commission of the American Bankers' Association:

[Capital as shown by Comptroller of Currency's Report September, 1907.]

No. banks.	State.	Capital.	3 per cent credit notes.	5 per cent credit notes.	Total note issue.
72	Alabama	$7,975,000	$1,990,625	$996,875	$2,990,625
2	Alaska	100,000	25,000	12,500	37,500
14	Arizona	755,000	188,750	94,375	283,125
37	Arkansas	3,690,000	922,500	461,250	1,383,750
128	California	29,796,900	7,449,225	3,724,612	11,173,843
104	Colorado	9,123,500	2,280,875	1,140,437	3,421,312
80	Connecticut	20,155,050	5,038,762	2,519,381	7,558,143
24	Delaware	2,273,985	568,496	284,248	852,744
12	District of Columbia	5,402,000	1,350,500	675,250	2,025,750
36	Florida	3,995,000	998,750	499,375	1,498,125
87	Georgia	8,959,000	2,239,750	1,119,875	3,359,625
4	Hawaii	610,000	152,500	76,250	228,750
34	Idaho	1,775,000	443,750	221,875	665,625
395	Illinois	54,571,250	13,642,812	6,821,406	20,464,218
223	Indiana	23,315,000	5,928,750	2,914,375	8,743,125
168	Indian Territory	7,127,500	1,781,875	890,937	2,672,812
304	Iowa	18,735,000	4,683,750	2,341,875	7,025,625
203	Kansas	12,031,540	3,007,885	1,503,942	4,511,827
141	Kentucky	16,058,400	4,014,600	2,007,300	6,021,900
37	Louisiana	8,989,920	2,247,480	1,123,740	3,371,220
79	Maine	9,401,000	2,350,250	1,175,125	3,525,375
98	Maryland	17,743,215	4,435,804	2,217,902	6,653,706
203	Massachusetts	59,217,500	14,804,375	7,402,187	22,206,562
93	Michigan	13,963,915	3,490,978	1,745,489	5,236,468
253	Minnesota	20,341,000	5,085,250	2,542,625	7,627,875
27	Mississippi	3,300,000	825,000	412,500	1,237,500
113	Missouri	28,955,000	7,238,750	3,619,375	10,858,125
38	Montana	3,519,500	879,875	439,937	1,319,812
196	Nebraska	12,261,770	3,065,442	1,532,721	4,598,163
8	Nevada	1,607,300	401,750	200,875	602,625
56	New Hampshire	5,210,000	1,302,500	651,250	1,953,750
172	New Jersey	19,708,230	4,927,057	2,463,528	7,390,586
39	New Mexico	1,918,041	479,510	239,755	719,265
404	New York	159,109,600	39,777,400	19,888,700	59,666,100
60	North Carolina	5,620,000	1,405,000	702,500	2,107,500
121	North Dakota	4,395,000	1,098,750	549,375	1,648,125
361	Ohio	59,631,800	14,907,950	7,453,975	22,361,925
136	Oklahoma	4,885,000	1,221,250	610,625	1,831,875
55	Oregon	3,866,000	966,500	483,250	1,449,750
733	Pennsylvania	112,433,998	28,108,499	14,054,249	42,162,749
22	Rhode Island	6,700,250	1,675,062	837,531	2,512,593
26	South Carolina	3,485,000	871,250	435,625	1,306,875
87	South Dakota	3,287,500	821,875	410,937	1,232,812
78	Tennessee	9,260,000	2,315,000	1,157,500	3,472,500
521	Texas	39,679,900	9,919,975	4,959,987	14,879,962
18	Utah	2,180,000	545,000	272,500	817,500
50	Vermont	5,685,000	1,421,250	710,625	2,131,875
100	Virginia	12,175,800	3,043,950	1,521,975	4,565,025
45	Washington	6,547,750	1,636,937	813,468	2,455,405
90	West Virginia	7,733,500	1,933,375	966,687	2,900,062
127	Wisconsin	15,555,000	3,888,750	1,944,375	5,833,125
29	Wyoming	1,585,000	396,250	198,175	594,425
1	Porto Rico	100,000	25,000	12,500	37,500
6,544	United States	896,451,314	224,112,828	112,056,414	336,169,242

GEOGRAPHICAL DIVISIONS.

490	New England States	$106,368,800	$26,592,200	$13,296,100	$39,888,300
1,443	Eastern States	316,671,028	79,167,757	39,583,878	118,751,635
1,312	Southern States	130,921,520	32,730,380	16,365,190	49,095,570
1,869	Middle Western States	235,067,965	58,766,991	29,383,495	88,150,486
1,121	Western States	60,134,351	15,033,587	7,516,793	22,550,381
303	Pacific States	46,577,650	11,644,412	5,822,216	17,466,628
5	Island possessions	710,000	177,500	88,750	266,250
6,544	United States	896,451,314	224,112,828	112,056,414	336,169,242

RESERVE CITIES.

If the plan of the American Bankers' Association were now a law the banks of the reserve cities could issue credit notes as follows:

	Capital, national banks.	3 per cent credit notes.	5 per cent credit notes.	Total credit currency-notes.
Atlanta, Ga	$2,100,000	$525,000	$262,500	$787,500
Albany, N. Y	2,100,000	525,000	262,500	787,500
Brooklyn, N.Y	1,602,000	400,500	200,250	600,750
Baltimore, Md	12,740,700	3,185,175	1,592,587	4,777,762
Boston, Mass	26,050,000	6,512,500	3,256,250	9,768,750
Cincinnati, Ohio	13,300,000	3,325,000	1,662,500	4,987,500
Cleveland, Ohio	9,350,000	2,337,500	1,168,750	3,506,250
Columbus, Ohio	3,550,000	887,500	443,750	1,331,250
Chicago, Ill	27,650,000	6,912,500	3,456,250	10,368,750
Cedar Rapids, Iowa	400,000	100,000	50,000	150,000
Denver, Colo	3,200,000	800,000	400,000	1,200,000
Des Moines, Iowa	800,000	200,000	100,000	300,000
Dubuque, Iowa	600,000	150,000	75,000	225,000
Detroit, Mich	4,750,000	1,187,500	593,750	1,781,250
Dallas, Tex	2,400,000	600,000	300,000	900,000
Fort Worth, Tex	1,925,000	481,250	240,625	721,875
Galveston, Tex	425,000	106,250	53,125	159,375
Houston, Tex	2,500,000	625,000	312,500	937,500
Indianapolis, Ind	5,100,000	1,275,000	637,500	1,912,500
Kansas City, Mo	3,300,000	825,000	412,500	1,237,500
Kansas City, Kans	1,000,000	250,000	125,000	375,000
Los Angeles, Cal	5,550,000	1,387,500	693,750	2,081,250
Lincoln, Nebr	650,000	162,500	81,250	243,750
Louisville, Ky	4,945,000	1,236,250	618,125	1,854,375
Minneapolis, Minn	5,700,000	1,425,000	712,500	2,137,500
New York, N. Y	114,580,000	28,645,000	14,322,500	42,967,500
New Orleans, La	6,025,000	1,506,250	753,125	2,259,375
Omaha, Nebr	2,800,000	700,000	350,000	1,050,000
Portland, Oreg	1,250,000	312,500	156,250	468,750
Philadelphia, Pa	22,305,000	5,576,250	2,783,125	8,359,375
Pittsburg, Pa	29,100,000	7,275,000	3,637,500	10,912,500
St. Louis, Mo	19,100,000	4,775,000	2,387,500	7,162,500
San Francisco, Cal	13,800,000	3,450,000	1,725,000	5,175,000
St. Paul, Minn	4,100,000	1,025,000	512,500	1,537,500
Savannah, Ga	750,000	187,500	93,750	281,250
Salt Lake City, Utah	1,200,000	300,000	150,000	450,000
Seattle, Wash	1,750,000	437,500	218,750	656,250
St. Joseph, Mo	900,000	225,000	112,500	337,500
Waco, Tex	800,000	200,000	100,000	300,000
Washington, D. C	5,150,000	1,287,500	643,750	1,931,250
Wichita, Kans	500,000	125,000	62,500	187,500

Comparison between the organization of a national bank and the amount of bank notes they may issue under the [illegible] proposed by the currency commission of the American Bankers' Association:

							Central reserve city banks, Chicago, New York, St. Louis.	Reserve city banks.	6,178 country banks.	Total, all national banks.
Capital	$25,000.00	$50,000.00	$100,000.00	$500,000.00	$1,000,000.00	60 national banks, capital	$161,330,000.00	$210,917,700.00	$524,203,614.00	$896,451,314.00
[illegible] U. S. bonds secured notes.	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00	Circulation outstanding.	75,414,677.50	125,912,230.00	350,622,554.00	551,949,461.00
Security U. S. bonds	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00					
5 per cent redemption fund	1,250.00	2,500.00	5,000.00	25,000.00	50,000.00					
	26,250.00	52,500.00	105,000.00	525,000.00	1,050,000.00					
To organize under the currency commission's plan.										
Capital	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00		161,330,000.00	210,917,700.00	524,203,614.00	896,451,314.00
20 per cent surplus required.	5,000.00	10,000.00	20,000.00	100,000.00	200,000.00		32,266,000.00	42,183,540.00	104,840,723.00	179,290,262.00
Total requirements.	30,000.00	60,000.00	120,000.00	600,000.00	1,200,000.00		193,596,000.00	253,101,240.00	629,044,337.00	1,075,741,576.00
Notes that may be issued.										
62½ per cent bond secured notes.	15,625.00	31,250.00	62,500.00	312,500.00	625,000.00		100,831,250.00	131,823,562.50	327,627,258.75	560,282,072.00
25 per cent, 3 per cent credit notes.	6,250.00	12,500.00	25,000.00	125,000.00	250,000.00		40,332,500.00	52,729,425.00	131,050,903.50	224,112,828.00
12½ per cent, 5 per cent credit notes.	3,125.00	6,250.00	12,500.00	62,500.00	125,000.00		20,166,250.00	26,364,712.50	65,525,451.75	112,056,414.00
Total bond secured and credit notes.	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00		161,330,000.00	210,917,700.00	524,203,611.00	896,451,314.00

RESERVE CITIES.

If the plan of the American Bankers' Association were now a law the banks of the reserve cities could issue credit notes as follows:

	Capital, national banks.	3 per cent credit notes.	5 per cent credit notes.	Total credit currency-notes.
Atlanta, Ga.	$2,100,000	$525,000	$262,500	$787,500
Albany, N. Y.	2,100,000	525,000	262,500	787,500
Brooklyn, N.Y.	1,602,000	400,500	200,250	600,750
Baltimore, Md.	12,740,700	3,185,175	1,592,587	4,777,762
Boston, Mass.	26,050,000	6,512,500	3,256,250	9,768,750
Cincinnati, Ohio	13,300,000	3,325,000	1,662,500	4,987,500
Cleveland, Ohio	9,350,000	2,337,500	1,168,750	3,506,250
Columbus, Ohio	3,550,000	887,500	443,750	1,331,250
Chicago, Ill	27,650,000	6,912,500	3,456,250	10,368,750
Cedar Rapids, Iowa	400,000	100,000	50,000	150,000
Denver, Colo	3,200,000	800,000	400,000	1,200,000
Des Moines, Iowa	800,000	200,000	100,000	300,000
Dubuque, Iowa	600,000	150,000	75,000	225,000
Detroit, Mich	4,750,000	1,187,500	593,750	1,781,250
Dallas, Tex	2,400,000	600,000	300,000	900,000
Fort Worth, Tex	1,925,000	481,250	240,625	721,875
Galveston, Tex	425,000	106,250	53,125	159,375
Houston, Tex	2,500,000	625,000	312,500	937,500
Indianapolis, Ind	5,100,000	1,275,000	637,500	1,912,500
Kansas City, Mo	3,300,000	825,000	412,500	1,237,500
Kansas City, Kans	1,000,000	250,000	125,000	375,000
Los Angeles, Cal	5,550,000	1,387,500	693,750	2,081,250
Lincoln, Nebr	650,000	162,500	81,250	243,750
Louisville, Ky	4,945,000	1,236,250	618,125	1,854,375
Minneapolis, Minn	5,700,000	1,425,000	712,500	2,137,500
New York, N. Y	114,580,000	28,645,000	14,322,500	42,967,500
New Orleans, La	6,025,000	1,506,250	753,125	2,259,375
Omaha, Nebr	2,800,000	700,000	350,000	1,050,000
Portland, Oreg	1,250,000	312,500	156,250	468,750
Philadelphia, Pa	22,305,000	5,576,250	2,788,125	8,359,375
Pittsburg, Pa	29,100,000	7,275,000	3,637,500	10,912,500
St. Louis, Mo	19,100,000	4,775,000	2,387,500	7,162,500
San Francisco, Cal	13,800,000	3,450,000	1,725,000	5,175,000
St. Paul, Minn	4,100,000	1,025,000	512,500	1,537,500
Savannah, Ga	750,000	187,500	93,750	281,250
Salt Lake City, Utah	1,200,000	300,000	150,000	450,000
Seattle, Wash	1,750,000	437,500	218,750	656,250
St. Joseph, Mo	900,000	225,000	112,500	337,500
Waco, Tex	800,000	200,000	100,000	300,000
Washington, D. C	5,150,000	1,287,500	643,750	1,931,250
Wichita, Kans	500,000	125,000	62,500	187,500

The following figures show a comparison between the organization of a national bank and the amount of bank notes they may issue under the present law and under the law as proposed by the currency commission of the American Bankers' Association:

							Central reserve city banks, Chicago, New York, St. Louis.	Reserve city banks.	6,178 country banks.	Total, all national banks.
Capital	$25,000.00	$50,000.00	$100,000.00	$500,000.00	$1,000,000.00	60 national banks, capital	$161,330,000.00	$210,917,700.00	$524,203,614.00	$896,451,314.00
May issue U. S. bonds secured notes.	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00	Circulation outstanding.	75,414,677.50	125,912,230.00	350,622,554.00	551,949,461.00
Security U. S. bonds	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00					
5 per cent redemption fund	1,250.00	2,500.00	5,000.00	25,000.00	50,000.00					
	26,250.00	52,500.00	105,000.00	525,000.00	1,050,000.00					
To organize under the currency commission's plan.										
Capital	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00		161,330,000.00	210,917,700.00	524,203,614.00	896,451,314.00
20 per cent surplus required.	5,000.00	10,000.00	20,000.00	100,000.00	200,000.00		32,266,000.00	42,183,540.00	104,840,723.00	179,290,262.00
Total requirements.	30,000.00	60,000.00	120,000.00	600,000.00	1,200,000.00		193,596,000.00	253,101,240.00	629,044,337.00	1,075,741,576.00
Notes that may be issued.										
62½ per cent bond secured notes.	15,625.00	31,250.00	62,500.00	312,500.00	625,000.00		100,831,250.00	131,823,562.50	327,627,258.75	560,282,072.00
25 per cent, 3 per cent credit notes.	6,250.00	12,500.00	25,000.00	125,000.00	250,000.00		40,332,500.00	52,729,425.00	131,050,903.50	224,112,828.00
12½ per cent, 5 per cent credit notes.	3,125.00	6,250.00	12,500.00	62,500.00	125,000.00		20,166,250.00	26,364,712.50	65,525,451.75	112,056,414.00
Total bond secured and credit notes.	25,000.00	50,000.00	100,000.00	500,000.00	1,000,000.00		161,330,000.00	210,917,700.00	524,203,611.00	896,451,314.00

The following figures show a comparison between the organization of a national bank and the amount of bank notes they may issue under the present law and under the law as proposed by the currency commission of the American Bankers' Association—Continued.

Security.						Central reserve city banks, Chicago, New York, St. Louis.	Reserve city banks.	6,178 country banks.	Total, all national banks.
U. S. Bonds..............	$15,625.00	$31,250.00	$62,500.00	$312,500.00	$625,000.00	$100,831,250.00	$131,823,562.50	$327,627,258.75	$560,282,072.00
5 per cent redemption fund.	781.25	1,562.50	3,125.00	15,625.00	31,250.00	8,066,500.00	10,545,885.00	26,210,180.70	28,014,103.60
5 per cent redemption credit notes.	468.75	937.50	1,875.00	9,375.00	18,750.00				16,808,462.10
5 per cent guarantee fund credit.	468.75	937.50	1,875.00	9,375.00	18,750.00	3,024,973.00	3,954,706.85	9,828,817.75	16,808,462.10 29,486,453.25
Legal reserve fund required.	1,406.25	2,812.50	5,625.00	46,875.00	93,750.00	15,124,678.00	19,773,534.35	29,846,453.45	34,898,222.00
37½ per cent of capital in gen. assets.	9,375.00	18,750.00	37,500.00	187,500.00	375,000.00	60,498,750.00	79,094,137.50	196,576,355.25	336,169,242.00
20 per cent of surplus required.	5,000.00	10,000.00	20,000.00	100,000.00	200,000.00	32,266,000.00	42,183,540.00	104,850,723.00	179,290,262.00
Total security......	33,125.00	66,250.00	132,500.00	681,250.00	1,362,500.00	219,812,160.00	287,375,366.20	694,569,788.70	1,201,757,279.05
Total issue.........	26,250.00	52,500.00	105,000.00	525,000.00	1,050,000.00	161,330,000.00	210,917,700.00	524,203,614.00	896,451,314.00
Amount of security more than issue.	6,875.00	13,750.00	27,500.00	156,250.00	312,500.00	58,482,160.00	76,457,666.20	170,366,174.70	305,305,965.05
Total credit notes that can be issued.	9,375.00	18,750.00	37,500.00	187,500.00	375,000.00	60,498,750.00	79,094,137.50	196,576,355.25	336,169,242.00

The net profit to a national bank, providing it could keep out its full circulation on an average of thirty days, to issue 3 per cent taxed credit notes, and money loaning at 7 per cent, would be 1.95 per cent, but if they should not be able to keep out more than one-half of the circulation it would net the bank 0.825 per cent.

This is the only proposed plan for currency legislation that can produce figures showing how it will apply to individual banks as well as to all the banks of the country.

These figures were made by John L. Hamilton, Hoopeston, Ill., member of the currency commission.

ADDITIONAL STATEMENT OF W. V. COX, PRESIDENT SECOND NATIONAL BANK, WASHINGTON, D. C.

Mr. Cox. Mr. Chairman, mention was made this morning about the position taken by the members of the commission, especially Mr. Forgan. I find a letter from Mr. Forgan in The Economist, published in Chicago, January 18, 1908, on the Aldrich bill; and in view of the discussion that has taken place I think it would be very useful to the members of the committee if that were added to your hearings to-day.

Mr. Hayes. I would like to have it.

The Chairman. That may be inserted in the record.

(The letter above referred to will be found at the end of Mr. Cox's remarks.)

Mr. Cox. I want to say that it must be distinctly understood that that refers to the original Aldrich bill. There is one matter, speaking locally, that is rather exceptional so far as Washington is concerned, and that is that this city was the only city of its size that did not go to the clearing-house certificate during this period of depression and panic. We met all our obligations in every way. There were no failures, and while we did not discount much paper, speaking of my own bank, we took care of our people. But as soon as it was learned outside that we were on a currency basis, instead of a clearing-house certificate basis, every device known to man was made to get our money, and we had to scan that very carefully. But I fancy that the condition here was due to the fact that there is a great deal of public money paid out here. We are very near the Treasury Department, and in that way, with these large buildings going up here, we were able to meet the obligations that came upon us.

I have in my pocket a statement that has never been published. I had it made up. It is a comparative statement showing the condition of these local banks during the panic. It is of considerable interest in that it shows what the increases and decreases were during a given period. In every institution in the city excepting three there was a decrease in deposits. There was a general decrease of $1,820,000 in national banks, $178,000 in savings banks, and $1,583,000 in trust companies. The percentages are also shown here. I will leave that with the committee if it is desired.

The letter of James B. Forgan, referred to by Mr. Cox, is as follows:

The Aldrich Bill.

LETTER OF JAMES B. FORGAN, PRESIDENT OF THE FIRST NATIONAL BANK OF CHICAGO, TO SENATOR HOPKINS.

I have your favor of the 7th inclosing a copy of Mr. Aldrich's bill to amend the national banking laws, of which you desire my opinion. It seems to me the national bank act itself might with good reason have been entitled "An act to provide an artificial market for Government bonds," and that this proposed amendment might with equally good reason be entitled "An act to provide an artificial market for municipal and railroad bonds." I can imagine no other motive for its enactment than an attempt to enhance the value of the bonds referred to, but I am doubtful if ultimately it would be effective in accomplishing even that, because I do not believe the banks will avail themselves of it and it will become a dead letter.

No bank from the standpoint of its credit in its own community could individually afford to avail itself of the privilege of taking out circulation at a cost of at least 7 per cent (in addition to the 6-per-cent tax there would, of course, be the ordinary expense of printing, transportation, redeeming, etc.). If it ever should be used, it would have

to be on the united action of the banks in a particular clearing-house association or community. I would even be doubtful if any reserve clearing-house association outside of New York City would care to take it out without the cooperation of all the reserve cities in the same section of the country. The taking out of such a currency would be notice to each community using it that an emergency exists and the public would act as they always have and always will act whenever it becomes generally known that an emergency exists. They would start to withdraw their money from the banks and hoard it.

But a more important and more radical objection is that the use of it would cripple the national banks (which are 99 per cent commercial banks) in their ability to accommodate their commercial customers. In order to get the necessary bonds to pledge as collateral security for it, they must before getting it invest at least 133 cents for every dollar of it they take out. Whereas if instead of investing in such bonds they should loan their money direct to their commercial borrowers it is self-evident they would have 33 per cent of the amount invested available for such loans.

Further, it is a fact that national banks do not invest except to a very small extent in such bonds. As a rule they can not afford to, and, being commercial banks, they naturally use their money for the direct benefit of their commercial customers. I have the honor to preside over the largest bank outside of New York City. We carry as an investment a very small amount of such bonds. When the recent currency stringency struck us, we took out $3,000,000 of additional circulation and received on deposit some of the money distributed by the Government for the benefit of the general situation, but, as shown in our statement, we had to borrow nearly all the bonds used by us for that purpose.

Other banks did likewise, as this was the only basis on which we could afford to use them. It cost us an average of 2 per cent to borrow them. This is what the national banks would invariably have to do before they could avail themselves of such a currency, and it would add to the expense of the circulation this additional 2 per cent, making its use cost 9 per cent.

In a money stringency, with its shattering of public confidence and curtailment of credit, in what condition would the banks be to help their customers if they themselves are obliged to borrow currency at 9 per cent? They might do something to help speculation in Wall street, where alone money reaches such exorbitant rates; they could do nothing for the support of their commercial customers.

The principle of the proposed legislation is directly the reverse of what it should be. Something should be done to avoid emergencies and to enable banks to tide their customers over periods of depression. This can not be done by issuing emergency currency, the very name of which is enough to breed a panic, nor by exorbitantly taxing the banks in the exercise of their legitimate functions.

There are many other matters in connection with this currency question involving economic principles which are as immutable as the laws of nature and which are directly opposed to the method of providing a circulating medium proposed in the bill, but I have not time at present to go into a complete discussion of these questions.

I should like to show that the currency so issued is absolutely without the element of elasticity in any possible meaning of the word. No currency can be elastic that is issued to the banks before it is issued by the banks, as no such currency can possibly adjust itself in the volume of its circulation to the actual daily requirements for it in commerce.

Elasticity is the daily adjustment of the volume of the circulating medium between the banks that issue it and the public that uses it. There can be no such adjustment in connection with the currency proposed. The circulation, arbitrarily fixed in volume, of a secured currency is one principal cause now of the periodical panics which occur in this country, and to add such an emergency currency as is proposed, similarly secured, seems to me to be an operation not unlike the giving of a drunken man full of whisky a dose of brandy to sober him. This illustrates from my point of view just what the effect on the financial condition of the country will be by injecting or attempting to inject into the currency a circulating medium such as is proposed. It would aggravate any condition of emergency existing instead of correcting it, and the use of it would produce an emergency even when none existed.

You also ask me if I am opposed to the Government guaranteeing bank deposits and if I will give you my reasons therefor. I am very decidedly opposed to such a proposition, and my reason is that if the Government is going to guarantee the deposits of all banks it completely eliminates the necessity of the public discriminating between one bank and another. The old-established bank with a record of many years of conservative management and accumulated strength would become just the same in the eyes of the public as a bank in the hands of speculators or incompetent or dishonest managers.

Ultimately the banks honestly managed would have to pay for the escapades of the dishonestly managed banks, and there would be no merit in excelling in conservatism or ability in management. It would be introducing into the banking business of the country the grossest error that now exists in connection with labor unions. It would reduce all bankers to the same level, and there would be absolutely no reason why anyone should not drop into the first bank he came to to deposit his money.

The Government being responsible for the deposits puts all on an equality and makes all equally good. Besides this, I think it would be practically socialism for the Government to undertake the guaranteeing of the enormous deposits in the banks. The stockholders of the banks supply the capital and under the law are liable for double the amount of the capital subscribed. They have been accustomed to get for supplying this guaranty to depositors all the profits that can be made in the business.

Why the Government should similarly guarantee deposits even if the banks are taxed for it, without getting the profits in the business, I can not see. If the Government is going into the banking business to the extent of guaranteeing all the deposits, it had better go into it direct and make all the profits that can be made out of it.

I have had to hurriedly dictate these opinions, and they are probably not as clearly or as well expressed as I would like to express them had I more time at my disposal, but I think they will indicate to you my conclusions and to some extent at least the reasoning which has led me to them.

The ACTING CHAIRMAN. I would like to say that the committee has been very much pleased with the manner in which each question has been promptly and squarely answered. You have not dodged anything, whether it came hard or easy.

Mr. HAMILTON. I wish to express my thanks to the committee for the courtesy and patience you have shown; and I wish to add this thought that has just occurred to me, in further support of our measure. That is, that the issuing of the clearing-house certificates by the different commercial centers has shown the value of the assets of those institutions; and while they have been issued with questionable authority, yet it is shown that such commercial assets are good security for a credit note issued.

Mr. HAYES. It shows that the people there so regard them.

Mr. HAMILTON. Yes; and the people so regard them in time of emergency.

(The committee thereupon adjourned subject to the call of the chairman.)

HEARING

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENT OF

MR. J. HOWARD COWPERTHWAIT

OF NEW YORK CITY

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
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Committee on Banking and Currency,
House of Representatives,
Tuesday, February 4, 1908.

The committee met at 10.30 o'clock a. m., Hon. Charles N. Fowler (chairman) in the chair.

The Chairman. Gentlemen, Mr. Cowperthwait, of New York, has come down here to be heard, and we will now proceed, if there are no objections.

STATEMENT OF MR. J. HOWARD COWPERTHWAIT, OF 154 WEST EIGHTY-SIXTH STREET, NEW YORK CITY, N. Y.

Mr. Cowperthwait. Mr. Chairman, do you wish me to proceed in my own way, or do you wish to ask me questions?

The Chairman. The time is yours. Proceed and tell us what you think we ought to know.

Mr. Cowperthwait. I would rather not put it that way. I think perhaps you know more than I do about the subject. I would like to state, gentlemen, before beginning, that I have always been in active business in New York City and entirely outside of politics and outside of banking, and all that I know about this subject is what I have studied during my whole life and in carrying on rather a large business.

Mr. McKinney. What line of business are you in?

Mr. Cowperthwait. The retail furniture business.

Mr. Gillespie. What is the extent of your business a year?

Mr. Cowperthwait. About a million dollars. The firm is Cowperthwait & Sons.

I think there is one important fact to consider, and that is that ever since we have had this bank-note system, for more than forty years, we have always gotten out of difficulty by the use of clearing-house certificates and clearing-house scrip. There is no case that I know of any panic in this country since this banking system came into use but we have found that way out of the difficulty, and in all that time, so far as I know, none of this scrip or none of these certificates have ever been the occasion of the loss of a dollar to anybody; and always when this money has been issued—this substitute for money, or whatever you might call it—it has been redeemed within a very short time, and there has never been any disposition on the part of banks that have put it out to keep it out. It has been absolutely elastic. It came into being when it was needed and went out of use just as soon as the need for it had gone by. Now, I argue from that that clearing-house scrip and clearing-house certificates are the natural cure for a panic, under our present system, because they have worked so well during these forty-odd years, and I claim, reasoning from that, it is proper to say that by a further use of this sort of money, not guaranteed by the Government, but backed up by some legislation, some very slight acknowledgment on the part of the Government that that is a good sort of substitute for money, panics could be avoided.

I do not think that you can avoid the great periods of depression that naturally follow the great periods of exaltation, as you might say. I think when prices are very high and speculation is rampant, and business very good, when we have what we know as a period of great prosperity, in that period you sow the seeds of adversity; and as one extreme succeeds the other, as a matter of course, when we have a period of adversity and everybody is economical, you then sow the seeds for a new period of prosperity; and I believe that that will go on just as long as human nature is as it is, and unless you can change human nature you will be unable to change that great difference between the period of high prices and great prosperity and the period of adversity, one succeeding the other and one causing the other, you may say, because when people are making money easily they then invest easily, and these people like Morse or Ryan or Harriman, or any such person, can easily float his securities, and the higher the state of prosperity the more he can float; and then you reach the period when something happens like the failure of the Knickerbocker Trust Company in New York, some little thing after you have reached the highest point happens, and people begin to think, and then you are in a panic the first thing you know. Then after that you have a long period of depression and economy, building up for another period of prosperity, in the natural course of events.

It seems to me that the Government should recognize not alone the clearing house of New York, but every clearing house throughout the country. If the Government could give some slight recognition to these great institutions, I think that then just before a panic some clearing-house money, clearing-house certificates or scrip, or whatever you call it, would come into use all over the country, and I think every crop season throughout the West and the South it might in due time become a matter of course that these certificates would be issued. For instance, when the cotton crop begins to demand money, as I believe it does in July, if I am well informed on that, I should like the Clearing House Association of New Orleans to issue clearing-house scrip to the banks that form that association, taking from each bank securities or commercial paper to the extent of, say, 133⅓ per cent of the amount of scrip that they issue. I believe that is the rate that they have generally gone by; that is, 75 per cent of scrip issued on 100 per cent of securities at the market value. I think if that was done as a matter of course every year, within a very short time we would have in operation in this country what would be the counterpart of the great central banks of Europe. I think it would be almost exactly that, a rediscounting custom in periods of tight money.

People claim that this clearing-house money and scrip is no good in domestic exchange. That is one way to put it, but you can say that money issued by the Bank of France or money issued by the Bank of Germany is no good for exchange between those two countries, and that is so; but it is perfectly good within the country, and it releases an immense amount of gold for use in the exchanges between the countries. So here, if New York City banks could issue clearing-house scrip at the very beginning of a panic, I think that would release an immense amount of Government money which would be shipped to creditor banks in the interior for the use of domestic exchange.

Mr. GILLESPIE. Who would decide, in your opinion, when it was necessary or proper to resort to these clearing-house certificates or money?

Mr. COWPERTHWAIT. I would first expect clearing-house associations to be reorganized. You know that now they have a very loose organization. The Clearing House Association of New York City is not even incorporated.

The CHAIRMAN. None of them are over the country.

Mr. COWPERTHWAIT. I am more familiar with the New York Clearing House. Now, if instead of that organization you had a great clearance bank, I should say that the board of directors of that bank could act in a moment; there would not be any waiting like there was in this last panic; but I should say that the board of directors could act in one moment and issue clearing-house scrip, and the manner of issuing it makes it absolutely safe. As I have told you, there has never been a dollar lost on any of this scrip or on any of these certificates, and I think it is perfectly proper to leave to an association, to a great bank, the right to issue, the Government limiting the quantity; to give the right to the bank to do that whenever it sees fit, because that great bank takes the risk. The Government does not take any risk; the bank takes the risk. There was no scrip issued in New York, as there was in the West. Suppose that a bank in New York applies for clearing-house certificates, the clearing-house association issues them, and it takes the securities of this bank, and then it assumes that risk. It becomes responsible. It has to redeem these certificates. I think where an association takes the risk itself of issuing this money to its member banks, that it is quite proper that it should do it when it sees fit. Then you catch the panic at the very instant it begins, not waiting until the patient is in convulsions. In a panic there is no time to communicate with Washington.

Mr. GILLESPIE. That would not be an emergency currency, but normal?

Mr. COWPERTHWAIT. It would be a currency; it would be a supplemental currency. I would not disturb our banking system, because I do not believe you can do that for a long time to come, and I do not believe it is necessary; but I would have this as a supplemental currency to be issued anywhere throughout the country, limiting the amount to the locality, and suitable to the responsibility, and the Government overseeing it to the extent that there should be no fraud committed, and that there should be sufficient security back of the currency. My pet idea is to provide money for moving crops. I live in New York City, but I think the most important consideration in any currency measure is the facility of moving the crops. That is a great thing to consider. It is not the prices of securities in New York; it is not to help speculators there, but that the farmers and the planters should be able to move their crops as soon as they are gathered and to obtain money or what will answer for money for the time being. The idea I want to convey is the necessity for the recognition of clearing-house associations, and helping them to develop into great clearance banks, some recognition which would mean that they would issue money whenever it is needed to a very limited extent.

Mr. MCKINNEY. The clearing-house money that would be issued would necessarily be largely a local money, would it not, for local use?

Mr. COWPERTHWAIT. I was out in Kansas City a while ago and I talked with the gentlemen who ran the loan committee of the Clearing House Association of Kansas City. They told me that a good deal of the scrip that was issued found its way 100 or 200 miles off from Kansas City, and it was even hoarded, to a certain extent. This is a curious thing, because it did not pretend to be anything but a substitute for money; but I should say that the money issued by a clearance bank taking the place of the clearing-house association, issued in New York, would find its way all over the country because of the strength behind it.

Mr. McKINNEY. What I was going to follow that up with was this: In the case of New York, suppose it was necessary to issue a large amount of clearing-house certificates; what would become of the outside banks depending upon New York for their currency, which they would have deposited to their credit in New York city? How would they be relieved by that sort of a situation?

Mr. COWPERTHWAIT. New York is the financial center of the country, and there is an immense amount of money or currency in New York that belongs to banks all over the country. That is, for nine months in the year—or for eight months in the year, to be more accurate—beginning with the 1st of January the money flows from all over the country to New York City, and that money belongs to the banks which deposit it there. Now, I should say that when there comes a bad period, if the banks of New York City issued clearing-house scrip every retailer of merchandise in New York City would advertise at once that that scrip was perfectly acceptable to him in payment of everything that was owing to him. As a retail dealer, I know that I would advertise, on the very day that the banks should say that they were going to do that, that it was perfectly acceptable to me. If that was done that scrip could be used in pay rolls, and then these creditors back in the interior could have the money they are entitled to that is on deposit in New York. But I should not leave it wholly that way, because I should permit these associations throughout the country to issue it themselves. Where a crop is gathered and marketed I do not see why that section of the country should not itself have some chance to finance its own crop. It seems to me that is quite a proper thing to do. I think the people who gather the cotton crop ought to go to their nearest center and get money for the time being, if they are satisfied to take that sort of money. I would not make it compulsory at all. I do not think they ought to be depending on New York or Washington. After they have gone to the trouble of raising the crop and getting it ready for the market, if they are willing to take this sort of money in payment for it, I think they ought to be entitled to have it.

Mr. WEEKS. You would be in favor of dividing the country into districts, would you?

Mr. COWPERTHWAIT. Only as it is divided now. You know there are a great many clearing-house associations throughout the country.

Mr. WEEKS. You mean you would allow the issuing of this circulation to the clearing houses as they are now organized?

Mr. COWPERTHWAIT. I would not care about that. I have not gone into the details.

Mr. WEEKS. Do you not think that would be an unjust prejudice against a bank that does not belong to the clearing house?

Mr. COWPERTHWAIT. They can join the clearing house.

Mr. WEEKS. Why should not every bank have this right, if any bank is to have the privilege of issuing this circulation?

Mr. COWPERTHWAIT. I think if you allow any bank to do it, it becomes then nothing but inflation.

Mr. WEEKS. You misunderstand me; I mean to have every bank belong to a clearing house. Take the State of Texas, if you like; every national bank in Texas belongs to the clearing house of the district in which it is. Is there any reason why a bank in Fort Worth should be allowed to issue a circulation that a bank in some small place is not permitted to issue?

Mr. COWPERTHWAIT. Well, I think the nation is entitled to a safeguard.

Mr. WEEKS. You would have all the banks in Texas behind that circulation?

Mr. COWPERTHWAIT. I would not have this money issued simply by a bank. I would have the bank apply to its clearing-house association.

Mr. WEEKS. Why not make that general?

Mr. COWPERTHWAIT. Wherever there is a clearing-house association I should.

Mr. GILLESPIE. Take this clearing-house association at Fort Worth, Tex. The town of Weatherford is 30 miles from there, with just a few banks, and they have no clearing-house association, though it is a good-sized, thrifty business city. How would you treat the banks at Weatherford? Would you require them to go in the Fort Worth association, or to form one of their own, or to stay out?

Mr. COWPERTHWAIT. I should permit them to form one of their own or go into the Fort Worth association, or let them do without this help. I should not allow a single bank by itself to be able to inflate the currency. I should certainly be opposed to that.

The CHAIRMAN. How can you inflate the currency, any more than you can inflate the amount of checks or drafts, if the currency can not be held as a reserve, and if there is a machinery for its return?

Mr. COWPERTHWAIT. If you compel its return, of course it will not.

The CHAIRMAN. Not compel at all, but permit its return. Suppose there was no provision for the use of a bank note in that way, it would come back as promptly as the check or a draft, and then how can you inflate the currency?

Mr. COWPERTHWAIT. I do not believe I know.

The CHAIRMAN. You know that you can not, do you not?

Mr. COWPERTHWAIT. I am not prepared to go into that.

The CHAIRMAN. Did you ever study the New England system, the Suffolk system?

Mr. COWPERTHWAIT. Very little.

The CHAIRMAN. You know the system of the Bank of France, which in some weeks contracts and expands seventy-five millions of deposits that have gone right into the currency. Now, why did it go into the currency? Because people wanted the currency rather than deposits subject to checks. What is inflation? It is basing one credit upon another, and if it is based upon the metal, the metal of the country is gold, and if you have nothing in reserve but gold, it does not make any difference how many credits you have out nor what the form of those credits is. You can only get inflation—I am speaking of bank credits now, and not of the price of goods—by basing one credit on another credit; is not that right?

Mr. COWPERTHWAIT. You get bank inflation in that way. But we have had such a thing as inconvertible paper money; for fourteen years after the civil war we had paper money, which was not convertible into gold.

The CHAIRMAN. What was that? The United States money; greenbacks and United States notes.

Mr. COWPERTHWAIT. You had the whole power of the Government behind it, but it was not sufficient to bring it to a par with gold.

The CHAIRMAN. Yes, that is true; the best currency that the world has ever had was worth only 75 cents on the dollar, simply because it was not based on gold.

Mr. COWPERTHWAIT. I should say that you can make the currency absolutely safe; by your bill it seems to me it would be safe. It would remain on a par with gold. But I do not think it would be sufficiently elastic for this country.

Mr. FOWLER. Most people think it would be too elastic, but I think it would be just elastic enough. In other words, I think it would go and come precisely in accordance with the requirements of trade. I know it; I do not think so at all; I know it.

Mr. COWPERTHWAIT. I do not believe, Mr. Fowler, that I am sufficiently familiar with a point like that to state how it would operate under your bill. If you want me to, I will branch off to that subject and I can tell you the objection that I have to your bill.

The CHAIRMAN. Let us not get away from the subject. We are talking about credits. The question is how can you expand or contract credits, or how it can result in inflation through a bank taking deposits if based on gold—that is, how they can inflate by basing credits or bank notes on gold. That is what I want to find out.

Mr. COWPERTHWAIT. I think that it would depend on the percentage of the gold.

The CHAIRMAN. Of course our conversation is based on a right reserve, such as the national banks have to-day.

Mr. COWPERTHWAIT. I do not think they have a right reserve. I do not think they have in New York City.

The CHAIRMAN. You do not think that 25 per cent is enough for New York City?

Mr. COWPERTHWAIT. No, sir; I do not think 25 per cent is enough for New York City.

The CHAIRMAN. Do not let us have a collateral question come into it. Assume that the right reserves are in gold, and there are the right issues, how can you have inflation?

Mr. COWPERTHWAIT. You can not.

The CHAIRMAN. Then let us make a distinction here. When you have reserves in gold, you never can have inflation. You can have expansion, but not inflation. There is a very distinct difference between expansion and inflation. If you continue to expand your bank credits and the reserve stands still, that is expansion but not inflation. You only get inflation when you base one credit on another credit. The other is expansion pure and simple, expanding credits and limiting your reserves to a given quantity and not keeping your reserves pari passu in amount with your credits; that is expansion and not inflation.

Mr. COWPERTHWAIT. I think there is no question at all, from the *experience of Europe,* that if you have a proper reserve of gold you

will have no trouble. I think there is no question about that, because that has been settled for a hundred years, you might say.

The CHAIRMAN. If you have your reserves in gold and a perfect facility of transferring from a book credit to currency you can not have inflation.

Mr. COWPERTHWAIT. While this discussion is on in the country I would like to see something done to get rid of the prejudice of the American people in favor of only money guaranteed by the Government. That is a peculiarly American prejudice, and it is almost universal. I think ninety-nine men out of one hundred, if you have anything to say to them about currency and give them a chance to answer on that point, would always say that they want the Government behind the currency.

Mr. JAMES. Do they not get that from the Constitution?

Mr. COWPERTHWAIT. Behind the paper currency; the Constitution?

Mr. JAMES. Behind any sort of currency?

Mr. COWPERTHWAIT. I do not know that. Well, there may be some law in it, but I do not think most individuals understand it in that way. Of course I accept what you say, but I think they look on it as the stamp of the Government making it good. That is not true in any other country.

Mr. JAMES. Do they not look on the right to coin money as a governmental function, like the right to collect taxes or take any other governmental action?

Mr. COWPERTHWAIT. It seems to me that the true function of the Government in regard to money stops with the coining of money.

Mr. GILLESPIE. I agree with you on that.

Mr. COWPERTHWAIT. I think that is the practice that has gone on in Europe, and I think that is the true practice.

Mr. JAMES. But you disagree with the Democratic platform when you do. The Constitution is above every platform.

Mr. GILLESPIE. I admit that.

Mr. MCKINNEY. Did you state in your remarks that there was to be a limit; that the limit of the issuance of clearing-house certificates was to be determined by the clearing-house itself?

Mr. COWPERTHWAIT. I should say that if clearing-house associations were empowered to issue this sort of money—understand me, not guaranteed at all by the Government—nobody being obliged to take it unless they saw fit, it simply being a promise to pay by a clearing-house association, that even so, every clearing-house association should be limited in the amount of money that it can issue, should be limited by the combined capitals of the banks which are in the clearing-house association. It seems to me to be much more proper, for instance, for a New York City bank to issue $100,000,000 of this sort of currency than for a clearing-house association of two or three banks in a far Western or Southern city to issue $10,000,000. I think the issue ought to be in proportion to the responsibility behind it. As to exactly where you would draw the line, you might draw the line at the combined capital of the banks that formed the clearing-house association. You would want enough responsibility behind it so that there would be no fraud committed on the people, and if you did not limit it they might succeed in getting a very large amount afloat, and that would be a hardship on the people of that section.

Mr. WEEKS. If it had good security behind it, would that be any harm?

Mr. COWPERTHWAIT. It would be all right if they had the security behind it; but then people are human, and it might get afloat, and you might suppose there was the security when there was not. I would have it limited in both ways. I should like it absolutely safe, without a guarantee of the Government. Were you speaking about money being oversupplied, Mr. Crawford?

Mr. CRAWFORD. Yes.

Mr. COWPERTHWAIT. I was talking with a merchant in New York some time ago, and possibly some one here might have the same views that he had. He was quite a successful man. There are about $346,000,000 of greenbacks, I understand, in the country, and that whole amount stays in this country. There is no question on that point. I said to him that that does not prove there are $346,000,000 more of money in this country, and he said he thought it did, because it was here. Then I called his attention to what I thought was a very important thing, that ever since those greenbacks were issued we have been exporting gold and importing gold, settling balances of exchange in that way, and whenever we have had too much money, and the rate of interest has been too low, we have exported gold, and whenever the rate of interest has been too high, and there has been a shortage of gold, we have imported gold and sold securities, as we have been doing lately. I claim that as a scientific fact the $346,000,000 of greenbacks increases the total stock of money in the world, and that is all it does; that the amount of money in the United States is increased by this $346,000,000 simply by the proportion of that $346,000,000 that belongs to the United States in the ordinary course of its business, and I should say that if you should take that $346,000,000 out of existenee, say during the next ten years, little by little, whenever it came into the hands of the Government, after that period had passed you would have nearly as much money as if you did not take it out of existence. You would export so much less gold.

The CHAIRMAN. Gold would take its place?

Mr. COWPERTHWAIT. Yes.

The CHAIRMAN. Absolutely?

Mr. COWPERTHWAIT. Or something else would take its place, possibly national-bank notes, possibly something else; but I believe that so long as you stay on a gold basis it is absolutely impossible to increase or decrease the amount of money in the country unless you go to extreme measures. You could, of course, annihilate a large amount of money—wipe it right out of existence. There is an old economic natural law, discovered by Sir Thomas Gresham, and I do not know as I ought to speak of such a simple thing as that, for it has been known for three hundred years and I believe there is no dispute that it is an absolute law from which nobody can get away, that in every country the poorer currency drives out the better currency. It has happened in England, and everywhere, and the more you issue the poorer currency the more the better currency goes out of the country, because people have to use currency for the debts they settle, and the better money is always demanded for the foreign debts.

The CHAIRMAN. That is, you have the poorer currency for the common use, for which the good was used?

Mr. COWPERTHWAIT. Yes.

The CHAIRMAN. So that it does not follow that the poorer currency will drive out the better unless they are both treated on the same basis?

Mr. COWPERTHWAIT. Oh, yes.

Mr. WEEMS. It depends on the difference between the values of the two currencies?

Mr. COWPERTHWAIT. You will pay your debts within the country with the poorer kind of currency.

The CHAIRMAN. But if you reduce your bank credits and all your reserves are held in gold, then it will not drive out the gold?

Mr. COWPERTHWAIT. No, sir; not if you arbitrarily fix the amount of gold. Of course you can not drive it out. If you can arbitrarily fix it, it will not be driven out.

The CHAIRMAN. You can fix it in the reserve, and if all credits of banks were based on gold, then the banks would be compelled to buy gold, as they did in Louisiana before the war, and the State of Louisiana had more gold than any State in the United States except New York, simply because they were compelled to buy gold to do business.

Mr. COWPERTHWAIT. Yes, sir. I think in this last panic the money that was issued by the Government will have the effect of driving that much money out of the country.

The CHAIRMAN. What do you refer to; do you mean the bank-note circulation?

Mr. COWPERTHWAIT. They sold the Panama Canal bonds, you know.

The CHAIRMAN. You mean the bank notes that were based on them?

Mr. COWPERTHWAIT. Yes.

The CHAIRMAN. Only so far as those bank notes would be used for reserves. To that extent, yes.

Mr. COWPERTHWAIT. Gold has begun to go out already.

The CHAIRMAN. Certainly.

Mr. COWPERTHWAIT. And I think more will go out because of that issue of money than would otherwise be the case.

The CHAIRMAN. Certainly, because they use the bank notes for reserves; they are constantly putting bank notes into the reserves of the country and undermining the credit of the country.

Mr. COWPERTHWAIT. I should think that the gold would leave the country unless the Government should absorb it and pile it up, and I do not suppose it can do that very readily at present.

Mr. MCKINNEY. It is generally believed throughout the country that the issuance of clearing-house certificates at any center comes about as a last resort on the part of the banks of that center on account of depleted reserves, and on account of its being an absolute necessity to keep the banks open.

Mr. COWPERTHWAIT. Yes.

Mr. MCKINNEY. That issue is generally deprecated all over the country; and under your proposal, if you adopt that as a system and the banks have a right at any time when the reserves are too low to issue such certificates, would not that very system, popularized

by your proposal, tend to careless banking on the part of the members of a clearing house? It would make no particular difference to them, because they would say, "Suppose our reserves do get down too low, we can issue certificates."

Mr. COWPERTHWAIT. In my proposal in the pamphlet I issued I put a heavy tax on this clearing-house scrip and these clearing-house certificates, and I put it in this way, that I thought the second half of the year, which was the crop-gathering season, when the country needs more money than it does in the first half, unless you are using money for speculation, when the country needs more for legitimate business, I should say then that this scrip might be issued in the way I propose, and it should be limited. That would cover a part of your question, limiting the amount. I should say during the second half of the year the clearing-house associations should be permitted to issue this scrip without any tax, but beginning on the 1st of January I would have the Government tax it even to the extent of 1 per cent a month for all that was then outstanding and the redemption of which was unprovided for. The Government inspector should have the amounts, and know every month what was issued and what banks issued it. The inspector should report that such and such a bank had had so much of this scrip issued and no reserve provided to meet it; consequently that bank would have to redeem it at once or pay the tax, and in that way you would have elasticity.

Mr. WEEMS. Do you think these clearing-house certificates have ever done any harm?

Mr. COWPERTHWAIT. No; I do not think they have ever done any harm.

Mr. WEEMS. Then why would you tax them?

Mr. COWPERTHWAIT. Issuing money is a sort of a prerogative of the Government.

Mr. WEEMS. They have always been promptly retired?

Mr. COWPERTHWAIT. Yes.

Mr. WEEMS. Under the operation of what influences have they been retired?

Mr. COWPERTHWAIT. I think as a supplemental currency. You want money to move the crops. If you issue money to move the crops and then it stays in circulation, it helps to advance prices and to encourage speculation and to create overconfidence, and you have nothing to issue when the next period of crop moving comes around. I think it ought to be a supplemental currency issued in the second half of each year when you are moving crops, and it ought to be issued right where the crops are moved, and then I think it ought to be promptly put out of existence.

The CHAIRMAN. It has gone out of existence, has it not?

Mr. WEEMS. It promptly goes out of existence.

Mr. COWPERTHWAIT. Yes; it has done so thus far, but I would make very sure of it.

Mr. WEEMS. It always has done so, has it not?

Mr. COWPERTHWAIT. Yes.

The CHAIRMAN. How do you know it will not?

Mr. COWPERTHWAIT. I do not.

The CHAIRMAN. Would you not rather trust to what had happened than to what you think ought to happen?

Mr. Cowperthwait. No; because what has been done so far has been somewhat in violation of law. That is, it is supposed to be in violation of law; but it has been such an absolute necessity that people have been willing to have a bank issue it rather than to have it fail.

Mr. Gillespie. Did not the in 1893 give an opinion that these clearing-house certificates were not in violation of law?

Mr. Cowperthwait. I do not know; I am speaking of a general impression. I do not know about the law. I have talked with a number of bankers in New York recently, and they talked as though it was in violation of law. I have never looked up the law, and I am not a lawyer. I supposed it was. But of course if there should be a law passed recognizing them in any way at all, then there would be more of a tendency to keep them out, and if they stay out during the whole year, then you have no elasticity of the currency from them, if they are going to be used to foster speculation. I think that is a long way off, when anything will be done that way, and it seems to me that the business in hand now is to defeat the Aldrich bill. That is the impression I have.

Mr. Gillespie. To defeat the Aldrich bill?

Mr. Cowperthwait. I think so.

Mr. Gillespie. What is your criticism of the Fowler bill? What is your main objection to it?

Mr. Cowperthwait. The guaranteeing of deposits in the banks seems to me to be a fatal objection to it. Mr. Fowler has tried to convince me the other way, but I am afraid I still stay where I was. Before I came here I talked with a number of bank presidents, and they agreed on that same view. I held that view before, and I am somewhat fortified by what they said. One of them even went so far as to call it a criminal idea. I do not give you that as my idea.

Mr. McKinney. What kind of an idea?

Mr. Cowperthwait. He thought that it was criminal for the Government to guarantee, or that there should be any guaranty of deposits.

The Chairman. A little experience that I had up in New York on Thursday will be relevant on this point. The merchants' association, from which I have a communication here in regard to another bill, has approved every section of that bill with that exception, and the committee having it in charge communicated with me, and I went before them, and they said that they had had the vice-president of one of the large banks of New York before them, and they said that he did not seem to have thought very much about it, and they wanted to talk with me about it; and before I had gotten through with those four men that afternoon I think they were all convinced absolutely, from what they said to me, because the chairman called me up the next day and virtually said that they had agreed that I was absolutely right in my contention, and that this matter of a few big bankers opposing the thing was based simply on the fact that they were not going to have the advantage of twenty-five years of prestige, and the advantage that they thought they had because of large capital, and for certain other superficial reasons; but they were convinced that I was right just as I pointed out to them there, and this man told me the next day that I was absolutely right in my contention. The point I want to make, therefore, is that the bankers that had come to them stated that they really did not know anything about it, but it was an impression they had.

Mr. GILLESPIE. What do you think of the idea of national banks dong a savings bank and trust business?

Mr. COWPERTHWAIT. I should think that that was wholly wrong.

The CHAIRMAN. What do you think of the trust companies doing a national banking and commercial business?

Mr. COWPERTHWAIT. I think that is wrong too, unless they keep proper reserves.

The CHAIRMAN. Do you know of a State in the United States where the trust companies are not doing everything that my bill proposes they shall do?

Mr. COWPERTHWAIT. I do not think they will continue in New York. They have lost a large share of the deposits; the people have caught onto it, and I do not think they will get the deposits they had.

The CHAIRMAN. Why not, after the people get over this scare? These companies offer 3 and 4 per cent interest on deposits, and at a bank they could get only 2 per cent, and why will not foolish people deposit with them, just as they did at the Knickerbocker Trust Company? I understand they had all the ladies from uptown doing business there, simply because they were paying them 4 per cent on their money.

Mr. COWPERTHWAIT. They can get that sort of money; but they have had merchants' deposits, many of them. One little company in which I am a director had an account with one of the trust companies, and as soon as it got into trouble we drew a check on it and got the money out. We did not get on the line, or anything like that; but I made up my mind that they were not entitled to any consideration at all, because they had not been doing a proper trust company business.

The CHAIRMAN. There is no trust company in New York that does.

Mr. COWPERTHWAIT. They will do better than they did before.

The CHAIRMAN. They will do just the same. Under the banking law providing for 15 per cent reserve that the committee reported up there, that does not prevent them from doing a banking business in every respect except discounting commercial paper.

Mr. COWPERTHWAIT. I would like to have you tell me of any other State where the trust companies have not been doing the same thing?

The CHAIRMAN. Have we not got to legislate for all the country, and not for ideal conceptions?

Mr. COWPERTHWAIT. That is very well, if you can; but I have hopes that by the developed clearing house associations——

Mr. JAMES. What is your objection to a tax being levied upon the national banks by the Government pro rata to the deposits, creating a fund in the hands of the Government as a trustee for the purpose of securing depositors?

Mr. COWPERTHWAIT. I think such a law would lead to very unsafe banking, and, to give my own experience, we have accounts in half a dozen banks, and in opening a bank account we consider the safety of the deposit, and we also consider how much money we can borrow from the bank, we doing a mercantile business, and I think those two questions come up with everybody in opening an account—that is, a merchant's account. If we had only one thing to consider, as to how much money we could borrow from the banks, we should naturally open accounts in the banks that were willing to do the most risky sort of business. I think that principle would apply throughout *the country.* I think instead of the banks doing business in such

a way as to be absolutely safe they would lean the other way; they would bid high for business.

The CHAIRMAN. How high; in what respect?

Mr. COWPERTHWAIT. Not necessarily in bidding for deposits. There are other ways.

The CHAIRMAN. Will you explain to this committee how it is done?

Mr. COWPERTHWAIT. It is done in a great many cases. We go to a bank and we arrange with them to keep an account, and we agree to keep certain deposits and they agree to lend us a certain amount of money.

The CHAIRMAN. Three or four times your balance, at a certain time of the year?

Mr. COWPERTHWAIT. Yes, but limited also to the total amount.

The CHAIRMAN. I understand a certain amount. Let me ask you another question, as a banker. What does a banker base that on?

Mr. COWPERTHWAIT. What does he base it on?

The CHAIRMAN. Yes.

Mr. COWPERTHWAIT. There is competition among bankers for business the same as there is among the rest of us.

The CHAIRMAN. What does he base it on? When you go in and say, "I am going to keep an average balance of $10,000," he says, "At a certain time of the year you want more money than you do at other times," and you say, "Yes." He says, "How long do you want it?" You say, "Two or three or four months," as the case may be. He says, "If you want it three months, I will give you five times as much as your average balance is. If you want it one month, I will give you ten times as much as your average balance is." Now, under the national-bank act, where you have got to carry your reserves in gold and all of your credits, whatever they are, are based on gold, how could any banker agree to do an unsound thing for you unless he had deposits that were deposited by others which he was using, or as a supplement to it, and as a prerequisite to it, he must have capital and surplus with which to meet his contract with you. How can he do an unsound business with you?

Mr. COWPERTHWAIT. Why we have near our store two banks, and both of them want our business; they are both anxious for it. One bank will say, "We will lend you $40,000." That bank knows very well it is competing with the bank on the corner and the other bank knows it, too. I should say, under your law, that instead of $40,000 they would say $50,000 or $60,000.

The CHAIRMAN. Where are they going to get the money to loan you?

Mr. COWPERTHWAIT. Oh, they have got—they do not take my money, necessarily.

The CHAIRMAN. This is a banker's question. I have been in the banking business myself. If to-day they are bidding, and they say they will loan you $40,000, do you not think they are looking around to see where they will get the $40,000? They say, "We have got to supply Mr. McKinney and Mr. McCreary, and all these fellows, and now we will talk it over; how much can we let them have? We can let them have $40,000." What is that based on? It is based on their average deposits in that bank, and upon their resources in profits, surplus, and capital. If they are straining every nerve to-day to get your business, and loan you $40,000, they can not loan you $1 more after you have guaranteed it, and I challenge you to point out how.

Mr. COWPERTHWAIT. They can not get more money to loan.

The CHAIRMAN. Then how will they loan it, if they do not?

Mr. COWPERTHWAIT. They will have a little less reserve at times.

The CHAIRMAN. It takes away the safest principle of banking. They promise to loan money that they never had.

Mr. COWPERTHWAIT. Yes; I think they will take chances.

Mr. JAMES. As I understand your contention, it is that if you insure deposits bankers will become reckless in the loaning of money. You think that when they have their deposits secured they will put their own property, their own investments, into danger of being lost through bad loans?

The CHAIRMAN. That is it.

Mr. COWPERTHWAIT. I should not put it near so strong as that.

Mr. JAMES. Take yourself; are you more solicitous about a debt that a man owes you, or about a debt that he owes my friend Mr. Gillespie; or would you be more solicitous about a debt that a man owed you, or about a debt that you owed some man? Just take human nature.

Mr. COWPERTHWAIT. I do not know. I think in New York I am about as solicitous about how I am going to meet a debt as about anything else.

The CHAIRMAN. You must be very charitable then.

Mr. COWPERTHWAIT. No; I have got to pay my debts in order to remain in business.

Mr. JAMES. Along this line let me see if I understand your theory of it. You know that after you have exhausted the assets of a national bank and sold them out, then you can go onto the stockholders for 100 per cent in addition. You would oppose making that 200 per cent, would you not?

Mr. COWPERTHWAIT. I do not know that I would.

Mr. JAMES. You would not?

Mr. COWPERTHWAIT. No; I do not know about that.

Mr. JAMES. That would tend to make banking safe.

Mr. COWPERTHWAIT. I do not know; that is a new point. I do not know about that. I do not know that that point has come up.

Mr. JAMES. I asked that question of some bankers last year from New York, and they said they would oppose it because men would be fearful of going into the business if you made them liable for 200 per cent.

Mr. COWPERTHWAIT. I should think they would. But one objection I have against that proposition. The amount that is lost in the way of deposits is very slight, does not come really to anything very serious, and it does not come to anything very serious with the merchant. If a merchant is doing a large business, the amount of money he has on deposit is very small in proportion. In our case, one of our banks failed in the panic. It did not bother us any, as we owed the bank more than it owed us. That is often the case. If a merchant has a large deposit, it is because he borrows a great deal.

The CHAIRMAN. I knew of one merchant who had $46,000 in a bank at the beginning of the difficulty, and he said that it absolutely ruined them when that bank failed.

Mr. COWPERTHWAIT. You know that the amount of money that is lost by bank depositors is a very small percentage. The total amount lost by depositors in national banks is a very insignificant

thing. You introduce a new principle of guaranteeing deposits, and if it has any effect it is to make banking less safe. You do a great deal of harm for a very little good.

The CHAIRMAN. A very little good? A very little good?

Mr. COWPERTHWAIT. I think so.

Mr. JAMES. Would it not have the effect of bringing into the use of commerce this amount that is kept out by people who are afraid of banks?

The CHAIRMAN. Would it not stop hoarding? The hoarding is estimated by the best judges to amount to $250,000,000. That would contract the credits of this country a billion and a half or two billions.

Mr. COWPERTHWAIT. I think that it would not have that effect. The reason is not that they are afraid of the bank, but they want the money to use.

The CHAIRMAN. Do you mean to say that if it was an absolutely known fact that there was this reserve in the Treasury of the United States, and anybody could point to it and say, "What is the use of your getting excited; there is $150,000,000 put in the Treasury for the express purpose of securing this, do you mean to say that it would not have any effect to stop the drawing out that money?"

Mr. COWPERTHWAIT. To a certain extent it would not.

The CHAIRMAN. Why?

Mr. COWPERTHWAIT. Because the people need money for their pay rolls, and so forth.

The CHAIRMAN. But if you have an absolute right to convert your book credits into current credits, perfectly free, just as the Bank of France does, then so long as there were any deposits subject to check there never could be any shortage, either in the country where the farmers are picking cotton or in Pittsburg, where they are producing machinery.

Mr. COWPERTHWAIT. If you had this money here and could ship it the same night.

The CHAIRMAN. You would not have to ship it at all. It is right in the bank where the man lives who wants it. You change it from a book credit into a current credit; the reserve is the same, and there is no change except that one becomes a current credit and the other a credit subject to check; that is all.

Mr. JAMES. Do you not think the effect of this panic that is now on the country will be to make people more fearful about putting their money in banks?

Mr. COWPERTHWAIT. I think for a very short time it will. No; I think the average man will say, "There can not be another panic for ten years."

Mr. JAMES. Down in my country the tobacco growers had sold their tobacco and they had the money, and they usually put it in a bank; but they took it home. The banks were not paying but 10 per cent on deposits, and they had suspended specie payments, and I have had lots of men come to me to get me to sue the banks and say, "If I ever get my money out of that bank, it will never go in there again." You have got these people scared. These people have individually small amounts of money, but in the aggregate it will amount to a large sum.

Mr. COWPERTHWAIT. Of course you must take some particular section. You could not travel all over the country. The fact is that

the money is now really piling up in New York. It comes from somewhere. There is $40,000,000 more than the legal reserves already piled up in New York.

The CHAIRMAN. Have you anything further to say?

Mr. COWPERTHWAIT. I was going to say one word about the Aldrich bill.

Mr. WEEMS. Let me ask you one question about this guarantee of bank deposits. It is currently reported in the newspapers that very bad securities were unloaded on some of the New York banks by their directors. I do not know whether it is true or not, but it has been mentioned. Assume that that was true as stated, that tens of millions of dollars' worth of bad securities had been unloaded on these banks.

Mr. COWPERTHWAIT. The clearing-house association, you mean?

Mr. WEEMS. No; the banks themselves.

Mr. COWPERTHWAIT. What is the point you wish to make?

Mr. WEEMS. Take two banks that have been named, the Mercantile and the National Bank of North America. It is stated in the papers that the runs on them were caused by the fact that the public got to know that tens of millons of bad securities had been dumped on them by their managers; that their managers had dumped on them bad securities, worthless securities. Now, if their deposits were guaranteed and therefore no run on them had ever been started, would not that afford one way of putting a stop to that particular kind of rottenness?

Mr. COWPERTHWAIT. In that particular case, I think so.

Mr. WEEMS. Is not the standing of a bank in the public opinion, as to the conservatism with which it is managed, the character of the bank, the wisdom of its investments, a guaranty against losses from bad banking?

Mr. COWPERTHWAIT. It strikes me this way, that if the deposits of the bank were guaranteed, the manager of a bank would feel that there would not be any run on his bank. I think then in that case he would be more easily led to take these bad securities. When they take these securities they do so based on the market value, and that market value changes.

The CHAIRMAN. These men got in there and bought up one of these banks and another, and then pyramided these banks and unloaded their stock on them, and they were allowed to borrow half the money in the bank. Mr. Walsh had three institutions in Chicago, and he borrowed $15,000,000 himself. The thing would be utterly impossible under this plan. That is what brings on your panics. It will not happen again in the same way, but it will happen in a way that we know nothing about, but it will have the same effect.

Mr. COWPERTHWAIT. Yes, the same thing; that will always happen.

The CHAIRMAN. Not exactly the same. There will be some point of difference.

The CHAIRMAN. I desire to express my thanks to Mr. Cowperthwait on behalf of the committee for coming before us and giving us his views.

Mr. COWPERTHWAIT. If you will allow me, I desire to thank yourself and the committee for giving me this opportunity.

At 12 o'clock m. the committee adjourned.

HEARING

ON H. R. 15849

A BILL TO CREATE A CURRENCY COMMISSION AND FRAME A SUITABLE MEASURE TO DIMINISH FINANCIAL CRISES

STATEMENT OF HON. WILLIAM C. LOVERING

A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

COMMITTEE ON BANKING AND CURRENCY
U. S. HOUSE OF REPRESENTATIVES

FEBRUARY 5, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, February 5, 1908.

The committee met at 10.30 o'clock a. m., Hon. Charles N. Fowler (chairman) in the chair.

STATEMENT OF HON. WILLIAM C. LOVERING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS.

Mr. LOVERING. Mr. Chairman and gentlemen, I am here to-day in support of House bill 15849 to create a currency commission and frame a suitable measure to diminish financial crises.

This bill provides for eighteen members, six to be appointed by the President of the Senate, six by the Speaker of the House, from Members in Congress, and six to be appointed by the President from outside commercial organized bodies. In what I have to say I do not propose to criticise or even hardly to consider any of the bills that are before the committee. I know that there are many. I have been over them, and see in most all of them a great deal that is good and which I hope may result in some practical plan sooner or later; but in talking with the Members of the Senate and of the House, I have come to the conclusion that the House is not in the temper to consider any plan or any bill that may be put before it to-day with the purpose of enacting it into law.

The CHAIRMAN. How is that? I did not quite understand you.

Mr. LOVERING. I say that in talking with Members of Congress, both of the Senate and of the House, I find that there is such a diversity of opinion as to what should be adopted that I have doubted very much whether in this session of Congress there would be a disposition to act upon any measure. The House distrusts itself; the Senate distrusts itself, its ability to consider this question—that is, the question of a fundamental reconstruction of our financial system. Many of the measures which are before you look to a financial reconstruction of our currency system, but I can not find any men who say that they are perfectly satisfied in their own minds that this plan is right or that plan is right. There are a few who do think they know, who are willing to take this, that, or the other measure; but if you have observed during the speeches that have been made in the House, they have been good speeches, instructive, and they have all received about the same applause, and all from the same people; but when it comes down to saying what and which measure they will adopt it is hard to pin them down. It has been suggested to me, and the suggestion comes both from Members of the House and the Senate, and from outside people, that a proper commission, appointed as I have stated, would be competent to take up this measure, and they would have all they could do to arrive at a satisfactory result, or one that would be acceptable, to work as hard as they can from now until the next session of Congress.

The work of the monetary commission of Indianapolis was to my mind one of the best things that ever happened to this country, and the report of their doings, I am free to confess, is almost my financial bible. I believe in it and the results that they reached. We might not reach the same results again, but if we did no better, if a commission went over the same ground and reached the same result that they did and reported it to Congress, I believe Congress would accept it, would accept the report, and act upon it. It may be asked, why can not this committee do it? Well, I think this committee could do the work if they were to sit steadily and hear everything that is to be said. I think there would come a period during that time when almost every man on the committee would have a different view, because he would hear everything, but I think they would finally sift it down and present something that would be acceptable. But then you have got to take into account the action of the Senate. They have ideas of their own. Then you both have got to take into account the banking interests and the outside industrial business interests. They have got to be considered. So it has been thought that with a commission of this kind who would devote themselves unremittingly to the consideration of the subject, you would be likely to get results that would be satisfactory. As I say, I do not wish to criticise any of the measures that have been heretofore introduced or reported. The chief thing, as I understand it, to avert a panic is the reestablishment of confidence. We have ten forms of currency, ten forms of money, and I think to them might be added an eleventh, which would be equal to the eleventh commandment.

The CHAIRMAN. You think we are ready for an eleventh commandment?

Mr. LOVERING. I do not know.

The CHAIRMAN. Thou shalt not be found out?

Mr. LOVERING. Thou shalt not be found out. But I think the eleventh form of currency is confidence. Confidence, for confidence means credit. Confidence is the best form of money. I do not mean to say that the eleventh commandment and the eleventh form of currency mean exactly the same thing. I do not wish to be understood in that way. This bill goes further than to merely frame a measure, and as stated, it authorizes the commission to ascertain the cause of the recent crisis.

Mr. WEEKS. Right there I would like to ask Mr. Lovering a question.

The CHAIRMAN. Will you allow the gentleman to ask you a question?

Mr. LOVERING. I do not object. I would like to continue the thread of my thought, but I will resume.

Mr. WEEKS. Speaking of the cause of the panic, I would like to ask you if you think that our currency system or the amount of currency that there was in circulation last year had anything whatever to do with that?

Mr. LOVERING. Absolutely nothing. I am not sure but what we have the best currency in the world. It has served us for over forty years, and no man has ever lost a dollar.

The CHAIRMAN. What happened to him when it was worth only *35 cents on the* dollar?

Mr. LOVERING. That was as between gold and silver, and we had a gold reserve.

The CHAIRMAN. As far as you had your gold reserve, he would not have lost anything, would he?

Mr. LOVERING. Oh, no; I quite agree with you on that.

The CHAIRMAN. How can you make it the best currency in the world if it was worth only 35 cents on the dollar?

Mr. LOVERING. When I say that, I mean that since there has been really the gold standard it has been the best.

The CHAIRMAN. How can you call it the best currency in the world when it is now conceded by everybody generally that it is the worst in the world because it has no relation whatever to the business of the country?

Mr. LOVERING. I was going on to say, if you will allow me—I do not speak of the way we handle it, of the security of it—that it has been sufficient. It is the best currency in the world on this score: That you never look at the bill you have in your pocket, and you never look to see what bank it is on when you receive it or pay it out. Probably you do not remember how it was back in 1857, but I do distinctly, because I remember the panic of 1857 most distinctly. I remember seeing the lines of depositors withdrawing their funds, every man presenting the notes of the bank for redemption in gold or silver; at that time the bank notes were scrutinized. I remember very well in 1857 in Massachusetts standing in the bank and seeing them come in and present their bills to be redeemed then and there. That was really the essence of the panic; I mean to say in the result of the panic. A panic is one thing and a crisis is another.

The CHAIRMAN. There was a crisis there?

Mr. LOVERING. There was a crisis.

The CHAIRMAN. Do you think that an American citizen looks on a national bank note when he lays it down with any more peculiar confidence than a Scotchman when he lays down a Scotch note, or a German when he lays down a German note, or an Englishman when he lays down an English note, or a Canadian when he lays down a Canadian note?

Mr. LOVERING. No.

The CHAIRMAN. What is there peculiar about the fact?

Mr. LOVERING. You know that in the panic of 1857 the bank notes were discredited, while in the recent panic not a doubt rested on the quality or validity of a single bank note.

The CHAIRMAN. They know too, do they not?

Mr. LOVERING. Yes.

The CHAIRMAN. Then there is no peculiarity about our currency in that respect?

Mr. LOVERING. You did not allow me to finish. I had not really stated my idea. We speak of a panic and a crisis as being the same thing. The panic is the result of the crisis. One man may stop or start a panic. I remember once being in a theater when the curtain caught fire. One person rose; I rose, and all the rest rose; but one man down in the front shouted "Sit down," and everybody sat down; and in a few minutes the fire was extinguished. That is the panic. The panic is the result of an unreasoning animal instinct. As I say, I remember such a panic, a bank panic, that I witnessed in 1857. I stood there and saw them pay money out of the bank, and they paid

out something like $8,000 or $10,000 only in one forenoon. I stood at the Knickerbocker Trust Company a few weeks ago in the forenoon, and they paid out $8,000,000 before 12 o'clock.

The CHAIRMAN. What happened to the Trust Company of America? They did not pay it back there, did they?

Mr. LOVERING. They had learned a little. But in 1857 they had learned to protect themselves in certain ways. They used all kinds of tricks. They would pay a lot a money to a man outside, and he would come around and make a great show of depositing it.

The CHAIRMAN. They did that up at the Lincoln this time.

Mr. LOVERING. I do not doubt it.

Mr. WEEKS. Do you not think it would be better to say they used "all kinds of good judgment" instead of "all kinds of tricks?"

Mr. LOVERING. I will ask the stenographer to change that, if you please. I may be tripped into saying something that I do not mean

Mr. WEEMS. On the New England banks in 1857 was there much of a run for gold, presenting the notes themselves for redemption?

Mr. LOVERING. Gold or silver; they did not discriminate so much between gold and silver. They were satisfied if they were paid in either.

Mr. WEEMS. Was there much of a run, presenting notes for redemption?

Mr. LOVERING. Oh, yes; and they fared better in New England than they did elsewhere, because of our system of redemption. We had there the Suffolk bank system, which I believe was the best system that has ever been adopted. But then the banks in the West would send great lots of their money east in packages by express, with the expectation that it would be distributed there, and it would likely find its way back to the bank in the same packages by another express. Eastern banks sent money west in the same way, and it came back. But I think we in New England fared as well as or better than they did in the other parts of the country.

The CHAIRMAN. There was only one bank left in Indiana, and that was the State Bank of Indiana. Every other bank failed.

Mr. LOVERING. I am inclined to think you are right.

The CHAIRMAN. I know that I am right. You had 505 banks in New England when the panic started, and I think there were only seven or eight failures out of that whole number of 500 banks in all of New England.

Mr. LOVERING. There were a great many industrial banks in New England. But our banks stood it very well. I believe you asked me a question, Mr. Weeks.

Mr. WEEKS. Do you not think your proposed commission is too large?

Mr. LOVERING. I think not for a final result. I have talked that over with the Secretary of the Treasury, with Mr. Aldrich, with Speaker Cannon, and they all have favored this proposition, and while you may work through subcommittees to do perhaps the drudgery of the work in a final report it is desirable to have a little larger committee, a commission about the size of this committee, and the bill provides that subcommittees may be appointed.

Mr. WEEKS. Did those gentlemen indicate that they would be willing to refrain from pressing the Aldrich bill at this session?

Mr. LOVERING. There was nothing said about that. I do not know anything about that.

The CHAIRMAN. Have you ever seen a commission appointed through politics as this is to be appointed—I mean so many from the House and so many from the Senate—that ever amounted to anything?

Mr. LOVERING. Yes.

The CHAIRMAN. Which one?

Mr. LOVERING. You say did I ever see one?

The CHAIRMAN. Yes.

Mr. LOVERING. Not on this question.

The CHAIRMAN. On any question, I mean. You take the monetary commission which was appointed by chambers of commerce and boards of trade of this country—probably as able a commission that ever sat in this country—and they came to a conclusion that was absolutely sound, and what happened to the bill when they got it in? It was a grand commission, and they made a learned report, absolutely right, and it was spit upon.

Mr. LOVERING. I should be very sorry to see a commission appointed that did not include some members of this committee; including yourself, sir. I should be very sorry to see such a commission appointed that did not include that class of men, and an equally good class from the Senate, and as for its being partisan in any sense, I was talking with the Speaker, and he thought that the six men to be appointed on the part of the House should be divided in proportion, somewhat to the membership of the House, to make it unpartisan in that way, to make it consist of both Republicans and Democrats, and the same in the Senate; and as for the men outside, we do not ask what their politics are.

Mr. WALDO. If you did that, would you have anything very different from the two committees, one of the Senate and one of the House, as they are to-day?

Mr. LOVERING. If the committees of the Senate and House would work together and present something that the people are ready for, I should be very glad to see them do it, but I do not see any prospects of it. Excuse me, I do not mean to criticise the doings of this committee.

Mr. WALDO. No; not at all. I wanted to see whether you could see any difference. Personally I do not see any difference between such a commission as you provide for and these two committees.

Mr. HAYES. You have no hopes that such a committee would agree upon any proposition that would be proposed?

Mr. LOVERING. Hope springs eternal.

Mr. HAYES. But you have no reasonable hope?

Mr. LOVERING. Yes; I have reasonable hope.

Mr. HAYES. I have not.

Mr. LOVERING. If I had not, I certainly would not be pressing this bill. I have reasonable hope that such a commission would arrive at something. I would ask in return, have you any hope that you will get a bill which would go through this Congress?

Mr. HAYES. I have every hope that we can get this committee to agree upon a bill that will be sound. I think we will agree, when we get down to it.

Mr. LOVERING. That will be so much gained.

Mr. HAYES. I hope so. It may be a little presumptious on my part to say so, but I believe that this committee understands the subject

and the situation as well as most commissions you would get appointed.

Mr. LOVERING. I hope that may be so, but when the bill has passed through all the pitfalls of the House, it has got to enter the Senate.

Mr. HAYES. It would have to do it in any case, if you have a commission.

Mr. LOVERING. I understand that, but there is a great deal of work to be done if you are going to adopt a measure which will be a fundamental reconstruction of the whole financial system of this country.

Mr. HAYES. There has got to be a great deal of work of education done. I do not think you would have to do a great deal with this committee. There has got to be a great deal of work of education done with the public and with members of the House and Senate.

Mr. LOVERING. I agree with you.

Mr. WALDO. Let me call your attention to one of the greatest Commissions appointed lately, the Merchant Marine Commission, appointed by the President, who agreed that there was only one thing that could be done; and then let me call your attention to the report of that Commission when it got into the Senate and came to the House.

Mr. LOVERING. How is that Commission formed?

Mr. WALDO. It is formed by an act of Congress.

Mr. LOVERING. Of whom is it made up?

Mr. WALDO. Of members of the Senate and House.

Mr. LOVERING. Any members from outside?

Mr. WALDO. None from outside. They agreed absolutely—that is, the majority did; there was no dissent. They said, after hearing everybody, going over all the United States and hearing everybody, that there was only one thing that could be done at the present juncture to restore a merchant marine to this country, and both sides were unanimous.

Mr. LOVERING. It was a unanimous report, was it not?

Mr. WALDO. It was a unanimous report of the majority. There was a minority report.

Mr. WEEMS. Was that not the trouble with the Commission? Was it not unanimous before it investigated?

Mr. WALDO. No; as a matter of fact they were unanimous, both the majority and the minority, upon only one scheme being practicable, and that was discriminating duties. After an investigation the majority concluded that on account of the numerous treaties that could not be done ,and that the only thing that could be done was in the way of subsidies and tonnage bounties; and yet when it came into the House, with an enormous Republican majority and a great Republican majority in the Senate, it absolutely failed. Now, I do not look for any good return from a commission. I think we had better go ahead and do the best we can; that is my own view.

The CHAIRMAN. Is there any other question you want to say something on?

Mr. LOVERING. I am not a very ardent advocate of commissions, or running the Government by commissions. I am free to say that yesterday I made a minority report where I stood alone among the Republican members of the committee against a commission, or establishing a commission—a commission to investigate strikes and that sort of thing. I am free to say that I voted against it, although *I stood alone as a* Republican on the committee, and I am not, as a

rule, in favor of it. But I do think that this subject is such a vast one, and after all is said and done it ramifies to the utmost ends of the country, and so many interests have got to be considered that force themselves to the attention of the people, that the members of Congress to-day, I am assured, are unable to say themselves whether they will vote for any bill at all, or what bill they will vote for.

The CHAIRMAN. They have not heard a bill. There has been no bill proposed to them, or discussed.

Mr. LOVERING. They have heard one plan after another suggested, ably argued, ably debated in the House, and they applauded it to the echo; and then they heard another plan, and they applauded that to the echo, and another, and they applauded that—all sides, all parties.

Mr. WALDO. You do not think there are but three plans that really can be discussed, do you—namely, the central bank, the credit currency, and the Aldrich bill, which is not a plan at all?

Mr. LOVERING. The Aldrich bill is simply an emergency measure, of course.

Mr. HAYES. You mean it is designed to be an emergency measure?

Mr. LOVERING. Well, I am not particular about the use of my language on that point. You may say what you please about it. There is a good deal to be said in favor of it, and something against it.

Mr. WALDO. Do you think if you have a commission appointed that there are any other plans known to the financial history of the world that would give any real system to be presented by this committee or by Congress, except the three main plans that are now before us?

Mr. LOVERING. Perhaps not.

Mr. WALDO. Do you think so?

Mr. LOVERING. Perhaps not. Each one in some modified form.

Mr. WALDO. That is a matter of detail.

Mr. LOVERING. Indeed it is a matter of detail, but detail is not to be ignored in the framing of a matter of that sort.

Mr. HAYES. I want to get a little of your idea of this proposition. Do you think that such a proposition could bring out any new facts to amount to anything that are not already accessible to anybody who wants to look for them?

Mr. LOVERING. For me to answer that question would appear to be impugning the efforts and the purposes of this committee, and I do not propose to do anything of the kind.

Mr. HAYES. Oh, not at all.

Mr. LOVERING. I do not want to be found or placed in that position.

Mr. HAYES. Thinking this over, and I have thought of it before, I do not see any mine of new facts that any commission could possibly investigate that would give any promise of any great addition to the sum of human knowledge in regard to this question.

Mr. LOVERING. Perhaps not. As I said at the outset, if they did no better than to arrive at the same result that the Indianapolis monetary commission did, they would do well. I do not wish to detain the committee any further. There are a great many gentlemen who would like to be heard on this subject.

Mr. WALDO. We have been sitting here to hear everybody that would come.

Mr. LOVERING. I have this to say before I finish, that if this committee can report out a bill that will meet the situation and my

approval, I certainly shall vote for it and sustain the committee in it. As for the expectation that this committee will report something which the House and Senate will adopt, I feel so doubtful about it that I am led to introduce this bill.

The CHAIRMAN. Do you think we have anything to do with what the Senate may do or what the House may do? As men of character and as patriots, without regard to party, do you think we ought to consider that?

Mr. LOVERING. I said I did not wish to impugn any of the motives or purposes of this committee, and I do not; but before a bill becomes law, you know as well as I do that it has got to pass both branches of Congress, and I aim at something that will do something. I do believe that if something is not done and done at this session we will see the worst panic we have ever seen in the history of this country.

Mr. WALDO. Do you believe that if we should agree to report out the Aldrich bill, and it should pass the House, that would be of the slightest assistance on the present occasion?

Mr. HAYES. As a matter of fact, would there be a new menace?

Mr. LOVERING. I did not propose to be brought into a discussion on that subject. I will tell you this, that as the Aldrich bill at present is in evidence, I do not favor it. The Aldrich bill I can conceive being put into such shape that I would favor it as an emergency measure. I think the intent of the thing is good, but I think some of the provisions are bad. That is about all I want to say about the Aldrich bill, and I think most of you gentlemen will agree with me up to that point.

Mr. HAYES. I think we would agree with you wholly, so far as I have heard.

Mr. LOVERING. May I have the privilege of bringing some gentlemen from New York, a little later, before the committee, who would like to be heard on this; not to day, but very soon?

Mr. HAYES. Some day this week?

Mr. LOVERING. I hardly think so.

The CHAIRMAN. On the simple question of appointing a commission?

Mr. LOVERING. Yes.

The CHAIRMAN. What is the pleasure of the committee? Do you care to hear anything on the subject?

Mr. WALDO. I wish Mr. Lovering would give us a list of gentlemen who wish to be heard.

Mr. HAYES. It would be well to state to Mr. Lovering that we passed a motion at our last meeting that we would close these hearings on Saturday.

Mr. WALDO. I do not take it that that means hearings on all bills, but on currency legislation.

Mr. HAYES. Yes; on currency legislation.

Mr. WALDO. We have another bill of a character similar to that of Mr. Lovering and I do not see why we can not hear these gentlemen upon that.

The CHAIRMAN. I will ask Mr. Lovering to address a letter to the committee requesting such a hearing, and then the committee will take it up.

Mr. LOVERING. Very well, Mr. Chairman.

HEARING

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENT OF

MR. EDMUND D. FISHER

Secretary of the Flatbush Trust Company
Brooklyn, N. Y.

COMMITTEE ON BANKING AND CURRENCY
U.S. HOUSE OF REPRESENTATIVES

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FEBRUARY 5, 1908.

STATEMENT OF MR. EDMUND D. FISHER, SECRETARY OF THE FLATBUSH TRUST COMPANY, OF NEW YORK.

Mr. FISHER. Mr. Chairman, and gentlemen, I am secretary of the Flatbush Trust Company, of New York, and was last year a member of the council of administration of the New York State Bankers' Association, and in that connection had something to do with the resolution that was passed in regard to credit currency. I am very glad to be here to-day, because I have been invited to be here by my good friend and neighbor, Congressman Waldo, and also because I have been brought very pleasantly in contact, at the recent meeting of the New York State bankers' convention, with your chairman.

What I have to say will be very brief, and, I think, simple. I have but one general topic to talk upon. When I came into the room I had but one topic, "currency," but I have added to that one other, which I will call "courage." It seems to me that is to be the point this year, whether you gentlemen in Congress have courage to pass a sound currency measure. The financial history of the country I have here on two pages, giving causes of panics as political, commercial, money, railroads, labor, Wall street. These may be called superficial causes in a general way. The cause of panics we all know to be business errors of all kinds and descriptions, political errors of all kinds and descriptions, and a panic is the natural consequence of those errors and adjustment back to normal and sane conditions. Through this analysis I find in the history of the country since the panic of 1814 the so-called panic cause of "money" predominates, and during these ninety-three years money difficulties have been acutely present forty times. There are men of banking experience who will tell you, particularly in New York, that money difficulties are present every year, particularly during the fall of every year, but money difficulties have been so acute as to be recorded in economic books in relation to this period of time on forty different occasions, starting, as I said, with the panic of 1814, and from that time to this there have been twelve periods of acute panic, or an average of one every seven and three-quarter years.

It is therefore evident from this statement that money difficulty is at the root of this matter, and that a cure of these conditions to some degree at least must come from an amendment or correction of our currency laws. Briefly stated, I believe that we want, first, credit on proper reserves. We have book credit. This country is the great book-credit country. Deposits in banks, savings banks, and trust companies have proved to be very successful most of the time. The credit based on note form we are deficient in, as is evidenced by every one of these acute panics, where money is hoarded, where there is

stringency, and where business suffers. We want, if we issue such credit notes, confidence in those notes. They should be printed by the Government. There should be a guaranty fund to protect these notes and they should be a preferred claim on the assets of banks. There should also be enforced consultation of bankers to protect the bankers themselves, to prevent these business errors, not alone in relation to the currency itself, but as a broad principle. I will illustrate that point later, giving as a concrete illustration the difficulties in Brooklyn during the recent financial crisis. There should, of course, also be automatic retirement of these notes. There should be gold reserves as the basis both of the book credits and of the note credits. We, happily, are now in no international difficulty. The time may come, however, and some people are said to want it to come, when there will be international trouble, and our relations with the countries of Europe should be on a sound financial basis, and gold, now recognized as that financial basis, should prevail. If we adopt the note form of credit, there should be a reserve for those notes, both in the banks themselves and with the Government. There should be a tax on these notes sufficient, I believe, only to provide for the guaranty fund. I find that there is an erroneous idea among business men that by putting a heavy tax on notes you can compel their retirement. That is fundamentally wrong. You can put a note out and tax it for its full face value, and it will not come back any sooner on account of the tax.

There should be conservation of the value of the Government bonds now used to secure our present circulation. The Government has provided these as a basis for our note circulation; and if your committee frames or advocates a bill that provides for the retirement of these bonds, it is but honorable that the Government should see that the people who have bought these bonds, because of the relations of the Government with national banks, should be reimbursed and that there should be no loss.

By this plan which I have outlined you would have a currency similar to that which has been tested in Canada, has been tested in Scotland, has been tested in Germany, has been tested in France, and in part has been tested in this country,, It was tested by the first and the second Banks of the United States. It was tested in New England through the Suffolk Banking System. It is based on sound principle as to reserves and based upon sound principle as to mutual supervision and relation. The gentleman who spoke before I appeared before you said that the best banking system he knew about in the world was the Suffolk Banking System. A like system has been tested in a superficial way, and yet a sufficient way, during the past few months. I have in my hand a certificate of the Augusta Clearing House Association that drifted to Brooklyn, guaranteed by the National Bank of Augusta, the Planters' Loan and Savings Bank, and others. That is a simple guaranty. It went out as a credit currency. It was retired when its use had ceased, and, so far as it remains in my possession, I fail to see how it will be an inflating element. I have also a two-dollar note drawn on a State bank and trust company of Cleveland, Ohio. This was drawn by a manufacturer. On the back of it, printed in six different languages, are the conditions under which this note was issued and the provisions for its retirement. I understand this worked beautifully in Cleveland.

It was issued to pay wages in the absence of a supply of Government currency and served its purpose, was received by the local merchants, and in this instance drifted to Brooklyn and, if we desire, can be sent back to Cleveland to be redeemed. These are simply concrete illustrations of the efficiency of the credit principle without governmental guaranty or control. The plan worked during one of the worst panics in the financial history of the country.

We have before us, three bills that are attracting attention throughout the country, and certainly in New York. We have the Fowler bill, the banker's bill, and the Aldrich bill. The Aldrich bill I find from conversation with eastern men, who are the men who are supposed to be most in favor of it, to be absolutely objectionable. I need not analyze that objection, except to cite the one fundamental point that in order to secure this temporary currency, so called, the banks have got to use fundamental reserves in order to buy bonds. That would be the status in New York, and the farther west you go the more onerous will be that condition. There are many sections of the country without the facilities for buying bonds and without the desire or need for buying bonds to whom this emergency-currency scheme will be absolutely useless; so that if it is objected to in the Central West and the Far West, and even more objected to, apparently, in the East, to whom it is suppose to cater, it seems to me there is no further reason to discuss it. I am in favor in a general way of what is known as the Fowler bill. I developed my own suggestions without reference to the Fowler bill, but in every way the Fowler bill seems to fit them. If this bill can not be passed, as a member of the American Bankers' Association and of the New York State Bankers' Association, I am in favor of the bankers' bill, so called, because that, in some degree, at least, uses the credit-currency principle which is going to be recognized as the only sound principle in banking. It has been tested, as we have seen, all over the world, as well as tested in this country, and not found to be wanting.

In this connection I think there is one very valuable suggestion in the Fowler bill, and I will refer to our conditions in Brooklyn in that connection, and that is what we call in the State a group plan, what in some cities is in effect a clearing-house plan of combination. In our State association the group plan is purely a sentimental one. We get together in various parts of the State during the year and elect our officers and have conferences on financial questions; but the result when a panic comes amounts to nothing. I, for instance, during the panic was chairman of what is known as group 7 of the New York State Bankers' Association, taking in all the banks of Long Island and Brooklyn. I had no power to call my associates together and provide any means for helping the banks; and if I had had that power at that particular time our mutual distrust of those in difficulty would have been so great that I very greatly question whether we could have done anything for them. You want to provide for these things in advance of the panic. The beauty of the Fowler bill and the principles it embodies is that it discounts the panic. Your Aldrich bill almost presupposes the panic. You do not want a measure that is going to come and help you out of a difficulty after you are in it; you want to prevent your difficulty. Of course we can not prevent all difficulty in the world of business forever by any bill, but we can discount money difficulties. Men, we say, are sinners morally. They are

sinners in business. During a period of ten years there will be a number of mistakes made, and those mistakes have got to be cleared somehow. Mistakes should be driven back on the men who commit them and not be distributed among the innocent people. A sound currency measure will be aimed more at the culprits, and the effect will be to not distribute those mistakes as is now done under our present financial legislation.

To revert to Brooklyn, we had a lamentable lack of cohesion. The trust companies of the city did get together and made a loan to some trust companies that were in difficulty by a merely voluntary plan. We ought to have had a plan by which bad banking, if it existed in different institutions, had been found out in advance; and this group plan, or this clearing-house plan, or this twenty-four-hour plan of the Fowler bill, if I may so express it, contemplates the prevention of those difficulties. When the associated bankers realize that they are being taxed, not only themselves but others are being taxed, to provide for difficulty, and that the loss if it comes will fall back on them, they will do all they can to prevent that loss in advance. Of course this applies in principle to the credit-note proposition; it applies in principle to the guaranty of bank deposits. I must confess that I did not come here specifically to argue in favor of a guaranty of deposits, but I have got to say to you gentlemen that in principle I believe it to be absolutely sound, and I would not argue against it. I am thoroughly convinced that it will not lead to unsound banking, because you must remember that before a cent of the guaranty fund is touched the capital of the bank must be wiped out, its surplus must be wiped out, and the double liabilities of the stockholders must be wiped out.

Mr. POWERS. Might I ask you a question right there?

Mr. FISHER. Certainly.

Mr. POWERS. Is there any one of the great commercial countries of the world whose principles of banking you have referred to in which there is any guaranty of deposits?

Mr. FISHER. This, so far as I know, is a new principle, except as tried some years ago in New York State under conditions absolutely dissimilar from our present conditions, under conditions when our country was younger, our population more heterogeneous, our credit less fixed. We have passed through a period where this country has been swept by civilization from the eastern coast to the Pacific coast, where credit is better established than it ever was before in the history of the nation. Of course the strength of the credit situation in Scotland, in England, in France, in Germany, in some degree is in the fixedness of the population. Our weakness during our early history was in a large degree caused by the shifting heterogeneous character of our population. That is gradually being eliminated, and we are coming to a point now, in my judgment, where such a scheme based upon proper guaranties, based upon internal supervision and organization under the group plan, will work.

Mr. POWERS. I understand what you have said to be an argument in favor of adopting the guaranty of deposits in this country, and am I to understand what you have said as an assertion that there are none of the great commercial countries to whose banking you have referred who have adopted that principle of guaranteeing deposits?

Mr. FISHER. Not so far as I know.

Mr. POWERS. That is the point I wanted to get at.

Mr. FISHER. Having outlined what I believe to be sound banking principle in this country, gentlemen, I most heartily urge on the part of this committee as careful an analysis of the principles laid down in the Fowler measure. I myself have very carefully analyzed its provisions. I am not a man in a national bank; I am in a trust company. I have tried to follow these questions, however, for the last ten years, and I fail to see in the various provisions any point of unsafety. On the other hand, I think every point makes for safety in our different classes of banking business. Of course, I recognize that some of these new principles will be very slowly absorbed by the people of the country, and in the absence of a majority opinion for this bill I believe this committee should report the bankers' bill, which at least starts that principle of credit currency which is unquestionably the vital thing to-day, the most important thing under consideration. This country is growing in credit power. We all recognize that its success is based upon credit with the fundamental reserves which we have, and we are growing every year. Do you realize that during the last fifteen years we have taken from Europe a net amount of $300,000,000 in gold? We are growing in financial strength and power, and credit after all is the expression of our civilization. The panic comes along; it is the barbarous instinct, as our friend here has said. The reserve is an expression of barbarism after all, but we have these fundamental instincts.

We want to see the money at times. I am very glad that during the recent financial stress the people did not want to see the gold. That is a distinct advance. I had an Italian who was going abroad, and he came to get his money, and I said: "Do you not want the gold?" And he said, "No, too heavy; I want the notes;" and he could sell the notes in Italy just as well as in the United States. This country stands before the world with its various forms of money in the most stable form, and a great deal has been accomplished in this country in the last twenty years by putting this country on a sound financial basis as to standard of value.

Mr. POWERS. You spoke of the reserve. Do you not think that for the ordinary purposes of business we have an ample per capita currency in the country?

Mr. FISHER. We have at times too large a per capita currency.

Mr. POWERS. For ordinary conditions we have ample?

Mr. FISHER. Yes, sir.

Mr. POWERS. Do you believe that the want of currency has had anything to do with the present panic?

Mr. FISHER. Temporary want of currency. It was a superficial condition; a temporary want of currency.

Mr. POWERS. Have you read the bankers' bill carefully?

Mr. FISHER. Yes, sir.

Mr. POWERS. With the existing laws as they are to-day, what will the bankers' bill be but an inflation measure?

Mr. FISHER. It will not be an inflation measure, for this reason.

Mr. POWERS. Well?

Mr. FISHER. Inflation has come to a great extent during the last ten years from the increase of the fixed bond-secured currency. I think it was back in——

Mr. POWERS. You do not understand my question.

Mr. FISHER. I have not got to the end of the answer yet.

Mr. POWERS. Well, go on.

Mr. FISHER. We have had an inflation, so called. It may have been a necessary inflation, necessary to our growing business; but our bond-secured currency in 1891 was one hundred and seventy-two millions at the low point.

The CHAIRMAN. It was $125,000,000 on a given day in 1891.

Mr. FISHER. That is even lower than my data made it. The Statistical Abstract gives it at $172,000,000. That has increased to $695,000,000.

Mr. HAYES. It is $695,000,000 now.

The CHAIRMAN. It is just $700,000,000 now.

Mr. FISHER. Yes. There has been an inflating tendency.

Mr. POWERS. You do not understand my question. Assuming we pass the bankers' bill, and a panic or a stringency should arise and we should issue $300,000,000 or $500,000,000 of emergency currency and inflate our currency by that $500,000,000.

Mr. FISHER. It will not be an inflating tendency any more than these clearing-house credit notes which I have shown here. They took the place of hoarded money, and the same status prevailed as before.

Mr. POWERS. What will bring this back to the bank that issued it?

Mr. FISHER. Proper redemption facilities.

Mr. POWERS. How long will it take it to get back?

Mr. FISHER. I believe that in Canada it gets back in thirty days.

Mr. POWERS. The Canadian system is not at all like ours. Under present conditions, do you believe that the credit money will come back—this $500,000,000 that they have issued?

Mr. FISHER. It is going to come back just as soon as the bank itself wants it, in practice, because the bank can give fundamental money and cancel its outstanding credit.

Mr. POWERS. But is there anything that prevents that fundamental money then from being put right into circulation?

Mr. FISHER. I did not intend——

Mr. POWERS. Please answer the question. Is there anything that will prevent that fundamental money from being put right into circulation or being deposited with your bank or any other bank?

Mr. FISHER. It goes immediately into circulation. Now, money takes two courses; it either is hoarded, which eliminates it from inflation, or it goes to a national bank, which has to send it back again.

Mr. POWERS. I do not understand what you say.

Mr. FISHER. You issue your $500,000,000, and it takes one of two courses; it either goes into hoarding——

Mr. POWERS. It goes into circulation.

Mr. FISHER. If it is in circulation, it strikes a bank within a few days and is sent back. If it goes into hoarding, if it is in the pockets of the people, it remains there a week or two weeks, some short time, because it is going to be spent. If it is spent, it finds its way back to the bank. If it is hoarded, it is eliminated from the question of inflation just exactly as these two notes I have here, which I propose to keep as long as I live, are eliminated from the question of inflation. But if it is not hoarded but is in circulation, it is bound to make its way back to the bank within thirty days.

Mr. POWERS. How long does it take our national-bank bills to get back into the banks? What is the average life of one of them?

Mr. FISHER. The average life is now about seven hundred days, and for this reason, if I may qualify it——

Mr. POWERS. Well, this currency would be as good as national-bank bills; otherwise it would cause a contraction.

Mr. FISHER. Yes.

Mr. POWERS. What reason would there be why the trust companies or savings banks, or any other institutions, should send this money back instead of paying it out over their counters, as they do with the present bills?

Mr. FISHER. I am inclined to say that the provisions of the Fowler bill——

Mr. POWERS. I am talking about the national banking law.

Mr. FISHER. I will agree with you that if under the Fowler bill or the banker's bill there is an issue of credit currency and it goes into the savings banks of the country or into the other institutions of the country and is used as reserve to that extent it would cause inflation.

Mr. POWERS. I asked this same question of Secretary Shaw on this same bill, and he said he thought a very small amount would get back, perhaps 10 per cent, the first year, and there was no reason for bringing it back any faster than the other, and he admitted that it would be largely an inflation measure, and it seems to me that the present bankers' bill is an inflation measure pure and simple, unless you change some of the statutes in relation to currency.

Mr. FISHER. I will agree with you that so far as it is used as reserve, which is unsound and illogical from a banking standpoint, it will be an inflation measure.

Mr. POWERS. I am opposed to any inflation of the currency except in times of emergency and crisis, and then it must go back as soon as it has served its purpose.

Mr. FISHER. You understand that I am favoring the principles of the Fowler bill first, and the principles of the bankers' bill second.

Mr. WEEMS. How about the notes under the Fowler bill; would they result in inflation if they get into reserve hands?

Mr. FISHER. No, sir; because if the Fowler bill passes, its provisions are such that there will be none under the national law. You can not have national institutions under different regulations, competing with each other on different bases, and I am convinced if national banks are given the trust-company principle in their management, and are given this privilege of issuing emergency or fundamental currency, whether it be emergency or not, that it would be very inexpedient for a trust company to refrain from organizing under national banking law, and if they do organize under national banking law, inasmuch as savings banks practically carry no reserve, then the redemption feature will be used all over the country as a matter of habit, and the notes will then expand and contract, following the course of trade, which is after all what we want in banking, as exemplified in the experience in other countries.

The CHAIRMAN. Then there is a tax of 10 per cent on every dollar of it that they put in the reserves, which would absolutely prohibit them from keeping a single note overnight?

Mr. WEEMS. Do I understand, then, that you favor those provisions of the Fowler bill which authorize a national bank to act as a trustee?

Mr. FISHER. I did not come here to favor the savings-banks provision or the trust-company provision, but I fail to see how I could logically object to those provisions. Take our own specific case. We are a trust company which does a commercial business as well as a trust business. We carry, of our own volition, at least 10 per cent in actual reserve. We probably will be compelled to carry 15 per cent under State law by spring or by the 1st of January, 1909. We have no objection to this. We want to be just as safe and secure as the law contemplates, or if the law does not contemplate security enough we prefer to take our own initiative. The law says 5 per cent in our case, and we have always carried 10 per cent. The national banks in Brooklyn, which is not a reserve center, as is Manhattan, are required to carry only 12½ per cent in cash; consequently, the national law is just as easy, and, in fact, more easy than the State law will be, so that should we organize under the national law we would not only have the trust privilege which we now have, assuming this bill to pass, but we would also have the opportunity, in times of emergency, if we desire, or in order to satisfy ordinary business demands, of issuing our credit currency on what I believe to be a sound basis. I would like to know of any argument against trust companies assenting to this provision of the bill.

Mr. MCKINNEY. Do you not believe that in the case of savings banks it is a wise provision that gives the bank the right to demand a certain length of time of notice for the withdrawal of funds?

Mr. FISHER. Certainly.

Mr. MCKINNEY. Do you not want to add this to the national-bank provisions?

Mr. FISHER. I suppose that if you proposed to inject the savings bank plan into your national legislation there should be the same safeguards thrown around the savings bank which the States now have. Looking at it from the savings bank standpoint, we have to realize that while New York and New England laws look after these provisions, most of the savings bank business of the country is done for profit, and where it is done for profit it is usually on a less sound basis than where it is done on the philanthropic principle. We call the savings banks in New York eleemosynary institutions. In the Seaman's Savings Bank you can not deposit over $500, and in others you can not deposit over $2,000, and in some not over $3,000. It may be wise to make some provisions to govern this class of business. The bill provides, of course, that the group committee shall make such provisions, and I am not prepared to say whether I would absolutely leave it to them or not. That would, of course, be a question for consideration.

Mr. MCKINNEY. In regard to the bankers' bill, that provides in case there is a desire on the part of a bank to withdraw its emergency currency it may do so, and by depositing with the Treasurer of the United States lawful money to the amount of the reduction desired.

Mr. FISHER. Yes, sir.

The CHAIRMAN. How is that?

Mr. MCKINNEY. I was just stating that clause of the bankers' bill which provided for the redemption of this currency, this emergency currency, this credit currency, the provision being that the bank could deposit lawful money with the Treasurer of the United States, and in that way be out from under the operation of the tax

on that currency, the notes to be redeemed by the Treasurer as presented. In the ordinary operation of the business of the country, after a deposit of that kind has been made with the Treasurer, certainly those notes, or a large part of them, would sooner or later reach the Treasury, and those notes would not be paid out again by the Treasury.

Mr. POWERS. They would average about two years.

Mr. McKINNEY. They certainly would not be paid out again by the Treasury, and that money could not help being impounded, because the Treasury could not safely pay that money out in any other way. It is held there for that purpose.

The CHAIRMAN. They are doing that to-day. All the national-bank notes are redeemed the same way.

Mr. WALDO. If $100,000 in currency is redeemed by the deposit of lawful reserves to-day, the Treasury does not pay that out at once.

The CHAIRMAN. It is paid right into the current account.

Mr. WALDO. So that it is purely an inflation, since the reserves deposited are paid out again at once.

Mr. WEEKS. It it is easy enough to provide to prevent their being paid out. If there was any doubt about the redemption of these notes it ought to be provided for.

The CHAIRMAN. Suppose you issue $400,000,000 of that currency, and then having, put that into circulation, you go and deposit $400,000,000 of gold, and they impound it, and leave $400,000,000 of this credit out, is that wise legislation?

Mr. McKINNEY. I do not think that would be the operation of this legislation.

The CHAIRMAN. What would it be? You can not provide lawful money to redeem them.

Mr. McKINNEY. Certainly my notes, as they come in, would be canceled.

The CHAIRMAN. They do not come in; that is the trouble. Did you have a chance to answer Mr. McKinney's question?

Mr. FISHER. I think that he worked it out for himself.

Mr. CRAWFORD. I would like to ask you what would be the effect upon State banks and trust companies if the national-bank issues were taxed?

Mr. FISHER. If the national-bank issues were taxed?

Mr. CRAWFORD. If the deposits were taxed—were guaranteed?

Mr. FISHER. That is illustrated very well by what is right before us to-day. Oklahoma, as I understand it, has determined to secure the deposits in its banks by a guaranty fund. This has brought its banks in competition with the banks of other States. Kansas, I think, is also considering whether it had better not, in competition, do the same thing, and I think you have got the germ started which, of its own volition, is going to travel all over the country, and it might be better, to save confusion, to consider very seriously whether you had better not recommend this principle to the National Government. Then, having adopted that for the national banks, it goes without saying that the State banks would have to fall in line, either through State legislation or through incorporating under national law.

Mr. WEEKS. Do you not think that germ is a microbe that might be dangerous to the community?

Mr. FISHER. I think we have reached that status in our Government's credit where the danger is at the very minimum. Take it during the last panic, as an example. In a general way—perhaps the figures have not been definitely collated—we will say for argument there might have been 300 banks and trust companies that have suspended, throughout the United States. We all know that of the deposits in national banks the amount of loss to depositors will be very small; a very small percentage. Take it at the very worst, assume for the sake of argument that they lose 25 per cent of the deposits in those 300 banks. This is purely hypothetical, and is not based upon figures. Of course you will readily see that the Fowler measure would be more than ample to provide for loss in those cases. Take our Brooklyn institutions. I believe in a general way they will pay very nearly one hundred cents on the dollar, after wiping out the capital and surpluses of the banks. The First National Bank, the only national bank that has failed, will open on the 10th of February without a loss to a depositor, perhaps with some little impairment of its surplus and capital. We may also take as an illustration the Bank of North America. I doubt if the depositors of the Bank of North America will lose a penny. I doubt if the depositors of the New Amsterdam Bank will lose anything. It will be found, I think, that the amount of loss that will come to this country through the losses of depositors during the last six months, or even during the next six months, will be reduced to a very small amount.

Mr. WEEKS. Is not the proposition to tax the wise and conservative man to provide a fund to take care of the improvident an unwisdom and abhorrent to every business principle?

Mr. FISHER. It would seem abhorrent, as you state it, but if you will analyze the bill, you will find that before the improvident man's bank is taxed or can lose anything the man has got to lose all his holdings; he has got to lose all his surplus and capital and he has got to lose his double liability, and he has every incentive under that bill which he has now for good banking, with the additional supervision, which it proposes, to correct error, which is vital to this whole question.

Mr. WEEKS. That is true, but a director may own only ten shares of stock, and he may be interested in a company whose note is not good, and he may cause the note of that company to be accepted for fifty or one hundred times that amount, so that the loss he would make on his stock would be comparatively nominal when compared with the profit which he might make in this company if the bank discounted the note, and consequently he would be much more interested in the company getting the loan through, in getting the note discounted, without regard to the loss on his stock.

Mr. FISHER. I think you have touched another principle that ought to be promulgated in banking—that is, a clearing house of credit, and that could be provided by these local associations. The banker today buys the paper of an institution because he thinks it is good. The credit reports say the concern or individual is worth so much money. He does not know how many of those notes may be bought by bankers in New Orleans or in San Francisco, or in any other city. The banker intelligently buying paper ought to know how much of that paper is outstanding. The credits of the man you distrust should be checked

by the clearing house of credits; and that would do more for sound banking in this country than anything else.

Mr. Weeks. I agree with you; but you spoke about the cooperative plan of working together in a community. Do you mean by that there should be a committee that should go into the different banks and see how they are managing their banks?

Mr. Fisher. Theoretically the New York Clearing House has supervision over each one of its subdivisions, and during the last three months the clearing-house committee has gone into and investigated the affairs of specific banks to determine whether or not they should be given assistance. I believe that that practice should be extended, of going into things thoroughly.

Mr. Weeks. Then would there not be danger of those men who made these examinations acquiring a knowledge of the business of their rivals which would enable them to get their deposits away from them?

Mr. Fisher. Not the type of men you would choose for this.

Mr. Weeks. I disagree with you entirely. I do not believe there is any living man who sees a good deposit in another bank and sees a method of getting it who does not sooner or later go for that deposit.

Mr. Fisher. Then put it into the hands of certified accountants. There are many other ways of handling that.

The Chairman. They have precisely this thing in Chicago now, so that every bank that clears through the clearing house of Chicago is examined. That is the rule in operation to-day, and it is the rule in Canada.

Mr. Fisher. Of course you would hate to have a rival banker come in to-day in your institution and examine into your business, but when it became a matter of habit it would be all right.

The Chairman. They do not go in personally; they do this through examiners.

Mr. Fisher. There are many ways of doing it.

Mr. Weeks. Do you think that if this Congress did not pass any currency legislation whatever, it would be a serious menace, or any menace at all, to the country?

Mr. Fisher. I should not call it a menace. I should say that you would continue fundamentally bad banking, which shifts funds from the East to the West every year, causing more difficulty to individuals than you realize. Perhaps there is nothing that you would call a menace, and yet this unsatisfactory fluctuation of funds, illogical, not based upon the expansion or contraction of business, is working havoc in small ways as a cycle of business reaches its culmination.

Mr. Weeks. You do not see any prospects of scarcity of currency now, do you?

Mr. Fisher. We have difficulty in getting rid of currency now, whereas three months ago we could not get any anywhere. But that is not the principle we are discussing. We are discussing this matter from a broad standpoint, to get rid of these difficulties for all time. Here is the man in the theater, in the case which Mr. Lovering spoke of this morning, who gets up and says "sit down," and the people sit down, and thus stops the panic. The difficulty is that the public mind goes from one extreme to another, and does not think along logical lines. Ninety days ago, if you gentlemen

had been in this room, with the pressure of the whole country behind you, and had been compelled to bring forth a measure, you would have had a measure. To-day you have a plethora, a redundancy of currency, and now you say, "Go slowly; it is not necessary to do anything now." I say this is the time to act, because you have a much better chance now than you will have next year, and now is the time to act, and if you make mistakes, you can correct them the next year, and the year following that.

Mr. WALDO. Is not this the trouble, that unless some action is taken now, immediately following a great financial crisis, it is not likely that any fundamental change in the currency system will take place until the next trouble arises?

Mr. FISHER. Yes, sir. I say now is the psychological time to do this. Each year you postpone action the less likely you are, in my opinion, to have good results.

Mr. WALDO. The inertia that attaches to any great currency system is such that it is almost impossible to change it unless there is present trouble.

Mr. FISHER. The most important point, I think, and I will close with that, is this: What you need to-day is courage.

Mr. MCKINNEY. Let me ask you one further question: As I understand it, the issue of notes under the Fowler bill is patterned after the Canadian system?

Mr. FISHER. Yes; in effect.

Mr. MCKINNEY. The Canadian system has no general guaranty for deposits?

Mr. FISHER. No.

Mr. MCKINNEY. So that in that regard the Fowler bill is entirely a new measure?

Mr. FISHER. Yes, sir.

Mr. MCKINNEY. An untried measure for general adoption in this country?

Mr. FISHER. Yes.

Mr. MCKINNEY. Do you believe that this is the time to take up such drastic changes as would be involved by the Fowler bill in all those different changes?

Mr. FISHER. To revert to that Canadian system, it is on such a sound basis because of its credit currency that there has not been a single loss in notes. If the Canadian system had contemplated ten or twenty years ago a guaranty of deposits, there would not have been a ripple of excitement in the results that followed, because the losses in deposits have been inconsiderable; so that I believe personally that if you instituted this credit currency principle, with your currency and your deposits correlating, and with your currency and with your group plan, your business methods will be on such a sound basis that I personally believe that the people of the country need not worry as to whether their deposits are guaranteed or not. I did not come here to argue in favor of the guaranty principle, but to me it is so innocent and so harmless that I can not argue against it.

The CHAIRMAN. Do you not think that the beneficent results of the prevention of panics and the stopping of hoarding would be of immeasurable value?

Mr. FISHER. I think it should cut a panic in half.

Mr. HAYES. Every time one of those clearing-house certificates was issued within the last thirty days it was an indication that the bank which issued it was in distress?

Mr. FISHER. Not necessarily an individual bank, but the banks collectively.

Mr. HAYES. And yet in spite of that condition and in spite of the fact that those clearing-house certificates were issued without the pale of the law entirely, they passed practically at par?

Mr. FISHER. Absolutely.

Mr. HAYES. In the community?

Mr. FISHER. Yes; absolutely.

Mr. HAYES. In your judgment is not that a concrete illustration of what this committee and the Congress of the United States should do in regard to the currency? But they did take these certificates at par.

Mr. FISHER. Yes; and the bill provides that they shall take this currency at par.

Mr. POWERS. I think that the committee feel that they have been very much entertained and perhaps enlightened by Mr. Fisher's statement, and I move a vote of thanks to him.

(The motion was seconded: and the question being taken, the motion was agreed to.)

HEARING

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENT OF THE

HON. MORETON FREWEN

OF BREDE PLACE, SUSSEX, ENGLAND

COMMITTEE ON BANKING AND CURRENCY

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 12, 1908

WASHINGTON
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1908

CURRENCY LEGISLATION.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, February 12, 1908.

The committee was called to order at 11 a. m., Hon. G. D. McCreary in the chair.

STATEMENT OF MR. MORETON FREWEN, OF ENGLAND.

The CHAIRMAN. Will you kindly give your name and address?

Mr. FREWEN. Moreton Frewen, Brede Place, Sussex.

Mr. Chairman and gentlemen of the committee, Mr. Burton of your committee suggested that I should give evidence here, and I am sorry that Mr. Burton is unable to be present to-day. I had mentioned to Mr. Burton that I was anxious to secure consideration at Washington for the currency proposal made in 1891 by the late Lord Goschen. In 1891 Mr. Goschen was chancellor of the exchequer during the Baring crisis. Perhaps Mr. Goschen studied this question with the greater earnestness because he may have regarded himself, however innocently, as to some extent responsible for the Baring crisis. He had refunded our debt at a rate of interest so very low that adventurous investors had removed masses of money to foreign and speculative investments, and particularly to the Argentine Republic.

Thus we had an orgie of speculation, and as a result a serious crisis in the city. After a period of careful consideration, Mr. Goschen went down to Leeds and made certain proposals to the Leeds Chamber of Commerce which are of value to your community to-day because the conditions of your recent crisis are not altogether dissimilar. What Mr. Goschen proposed was this—I need not remind you that Mr. Goschen was of the straitest sect, a monometallist, and was the author of the standard work on the foreign exchanges; he was speaking, too, with all the responsibility attaching to his high official position. He desired a large gold reserve supplementary to the reserve of the Bank of England, which he declared was entirely inadequate; and to obtain this, he said, was only possible if he could get out of the pockets and tills of our people a portion of the very large amount of gold or notes which we habitually carry. How was he to pay for this gold which he proposed to subtract? Not with gold, clearly, nor yet with legal tenders, such as "pound notes," for that way lay inflation, higher prices, and the expulsion of gold through the exchanges. What he proposed was to buy the sovereigns and half sovereigns he needed with small 10-shilling notes secured by silver, the legal tender of these notes to be limited to 40 shillings only.

Particularly he aimed at withdrawing in this way the majority of the 60,000,000 half sovereigns current. This coin is a wasteful coin

with a large friction surface. He knew that he could not transpose shillings or half crowns for the gold we carry in our pockets; we will not carry more silver token money than now because of its bulk, but he held that we would carry a large amount of silver in the shape of small "token notes." He thought that these notes would supply a real want; they would be convenient for postal remittances, for paying weekly wages, for shopping, and railway fares.

The legal tender of these notes, and this is all important, was to be limited, just as fractional silver currency is limited, to 40 shillings ($10). The proposal of Mr. Goschen was opposed by the bimetallist members of the House of Commons. Prices were at that time falling fast because of the shortage in the world's gold supplies, and here was the chancellor of the exchequer proposing to contract our full legal tender currency by thirty millions and substitute a "token note" currency, which, as he admitted, would not in anyway support prices. It was then a contraction proposal; it is to-day a contraction proposal, and as such may be looked askance at by some of my silver friends. But to-day the world's currencies are really becoming inflated, owing to the great mass of the new gold, and silver men are likely to support the Goschen plan for the security a great central gold reserve will bring to finance, for the employment it will give to silver in securing these small notes and for the great advance in the rates of exchange with Asia, which will result from a demand distributed over ten or twenty years for five or six hundred million ounces of silver with which to secure these notes. We took a deputation to Mr. Goschen at the treasury and satisfied him that with the opposition of the bimetallic party in Parliament it would be difficult or impossible for him to secure his plan of currency reform. He accordingly dropped it, though, as I happen to know, with very great regret; for it was a sound, clever financial expedient, and one well worth both your consideration, and our consideration in England under the altered circumstances of these days.

To-day prices the world over are rising so rapidly because of the enormous output of gold that I do not think any of my silver friends would object to a slight restriction of the currency if it gave an added security to the banking and financial business of the nation. I propose, then, to draw your attention to the applicability of the Goschen plan to this country. You would proceed to purchase monthly say two or five or ten millions of your outstanding gold certificates, paying for them with the small "token notes" secured by silver, their legal tender limited to $10. The mere fact that you had started on this road to accumulate 500,000,000 of "free gold" to be at the disposal of the Secretary of the Treasury would of itself go far to establish confidence here and abroad. Thus the foreign capital, now alarmed, would soon revert to American investments.

Then I would like to say a few words as to that valuable national industry, silver mining, though I know that here I am on delicate ground. The large quantity of silver required to secure these notes would make silver mining active and profitable for many years to come. Your present production of silver is about 50,000,000 ounces a year and these proposed small notes would require during the next ten or twenty years 500,000,000 ounces. When I was at Broken Hill, in Australia, a few years since I got some figures from Mr. *Coghlan,* the government statistician, which go to point the great

value of silver mining. In that colony of New South Wales 12,000 of its population are employed in connection with the Broken Hill silver-lead mines, and there are 160,000 engaged in agriculture The annual wealth product of the 12,000 people is about equal to the annual wealth product of the 160,000 people. I will include the official table in my evidence.[a]

It is not that silver mining is extremely profitable, but the employment given by the miner to affiliated industries—timber, chemicals, fluxes, machinery, and a dozen other industries—is very great. A single mine at Broken Hill when I was there was putting underground every day American timber brought from Puget Sound, of the value of $2,500. I believe an inquiry would elicit that a single silver camp, such as Park City, Utah, or Leadville in earlier days produces more wealth annually than ten times the number of its population employed in agriculture, say in Nebraska or Dakota. I don't for a moment suggest that you should jeopardize the security of your currency to foster your silver mines, but I do think that if you can secure a central gold reserve at an inappreciable cost, thus securing you against a recurrence of crises, otherwise inevitable, and if you can while doing this give added prosperity to your Mountain States the Goschen plan gets an added indorsement here, for in England we have no silver mines to foster.

The third point in connection with Mr. Goschen's proposal and the one which seems to me of by far the greatest importance to your country is this: If you will make an issue of small nonlegal-tender notes to buy up your outstanding gold certificates your demand for silver to put behind these notes will raise the exchange rates with all Asia, and that to my mind is the most important feature of the silver question, for us indeed in England, to some extent, but more especially for you here. You are building the Panama Canal; you are looking forward to a greatly increased trade with Asia. But you can not sell your goods to Asia if you are going to keep the silver exchanges with Asia as low as to-day. I have wandered much in Asia studying this question during the last twenty years. The merchants of India who were exporting wheat, cotton, rice, and other staples which compete in the markets of Europe with similar American exports—the condition which they watched in their business operations was the rise or fall of the exchange—in other words, the rise or fall in the gold price of silver bullion. Every fall in the price of silver bullion subsidizes the exports of Asia and, on the other hand, operates just as an increased tariff would to check imports into all Asia. Everything that Asia produces, everything that India produces, is produced upon a silver, or a silver rupee, basis and with every fall in the gold price of silver they receive more of their silver money

[a] *New South Wales.*

Industry.	Population.	Per capita production.
Silver-lead	12,000	£256
Tin	5,060	25
Coal	25,070	47
Agriculture	160,000	21
Gold	16,000	24

in exchange for what they export. Formerly if India sold wheat for a sovereign in the London market that sovereign exchanged for 10 rupees. To-day a sovereign purchases for the Indian exporter 15 rupees; if the Indian mints had not been closed to free coinage in 1893 the exchange to-day would be not 15 but 22 rupees per sovereign. Now I am aware that it is commonly believed here that just as the gold price of the rupee falls so also the value, the purchasing power, of the rupee in India falls, but this is not the case.

The official "index numbers" of silver prices prepared by the Indian government show that the rupee is worth to-day to pay labor or to purchase native goods in India actually more than it was when it exchanged at 10 to the sovereign. Two currency commissions have emphasized this (what Mr. Goschen described as) "perversity" in the rupee. It is this absolute immobility in the rupee and it is this alone which creates a silver question. If prices in Asia had risen pari passu with the fall in the gold price of silver, there would be no silver question, and not one of us here would walk across the room to concern ourselves as to the future price of silver bullion. In China again where, unlike India, the exchanges are not interfered with by any action of the Government, cheap silver is fostering a competition with white men's industries, which, as China awakens, will most seriously react upon all your trans-Pacific trades. It is therefore quite impossible that your nation can permanently acquiesce in the present haphazard exchange relations with Asia. Because the monsoon rains failed last year in India during the critical fortnight, India has little to export, and therefore the merchants demand upon the Indian government for rupees has dwindled; therefore that government is buying no silver and the price of silver is depressed 12 cents per ounce. So that the entire rates of exchange with eastern Asia have come to depend upon the accident of the rainfall in British India. Whether Lowell cotton mills can sell their cotton goods to China depends upon the weather in British India. Let me read you a resolution of the Manchester (England) Chamber of Commerce:

We are led to the conclusion that the principal cause which has enabled Bombay mills to supersede those of Lancashire in exporting yarn to China is the great fall in eastern exchange since 1873.

The Shanghai Chamber of Commerce in 1898 said:

In due course the products of Asiatic cheap labor will prove far more injurious to the interests of the wage-earning classes in gold-standard countries than the presence of Chinese coolies, and unless silver is remonetized protective measures will have to be adopted to exclude from gold-standard countries not oriental laborers only, but all those manufactures also which are subsidized by (gold) premiums.

The Yokohama Chamber of Commerce said (May 15, 1894):

Already under the influence of cheap silver a large proportion of the trade east of the Suez Canal is finding for itself new channels which will gradually be closed to western competition, and we foresee that further persistence in the monetary policy of Great Britain must entail an injury to the manufactures and industries of the West the extent of which is incalculable.

Here are resolutions by important chambers of commerce dealing with those exchange conditions which are their daily walk and conversation. Why do we not take them to heart? They constitute the very theory and practice of the foreign exchanges to-day. If the premium on gold in the case of the paper currencies of Brazil or the Argentine rises, at once there are a hundred New York mer-

chants who declare that what they sell to Rio or Buenos Ayres is seriously interfered with. Then why not admit that a fall in the price of silver bullion, or, in other words, a rise in the gold premium on every exchange in Asia with its eight hundred millions is a bar to the business of every white trader?

Recall that when the government of India in 1897 negatived the proposals of the Wolcott Commission, which proposals had as their aim to restore the rupee to its old exchange of 10 to the sovereign, the governor of India said "the sudden rise in the rate of exchange would kill our export trade, for the time at least," meaning that the export trade in wheat, cotton, and other staples would be killed until gold prices in Europe rose to the equivalent of the rise in exchange. India is, of course, the ward of our nation, and any currency legislation which will have the effect of increasing the monetary use of silver in the West and thus raising the bullion price of silver against the East and which will check India's exports and stimulate ours, strikes Parliament as questionable; at least it is hardly for us to take the first step; it is for you Americans to move, and it is undoubtedly your interest to do so.

Mr. Chairman, I have outlined, however briefly and cursorily, the position which you would assume did you here apply the proposal made for us by our chancellor of the exchequer, Mr. Goschen. In the first place you would have a great "war chest," a great central reserve of "free gold" at the disposal of the Treasury, available in the event of war or in the event of panic. During the next twenty years this gold reserve might accumulate to say five hundred millions. The second point is that the absorption of silver to secure these small notes would make the conditions of mining in your Mountain States active and profitable, and silver is a national industry which in regard to the per capita wealth product of the laborers employed is the most valuable industry you have. In the third place your absorption of silver would raise the exchange rates with eight hundred millions of those producers in Asia whose exports to European markets compete with your own; the rise in exchange would impair their power to compete with you in Europe, and thus add greatly to your balance of trade and give you a greater control through your exchanges over the gold markets of Europe. And also the rise in silver exchange would enable you to sell goods in Asia at a profit where to-day there would be a loss.

The situation of silver to-day is a very interesting one, and I wish I were able to explain in the short time at my disposal the extraordinary position in which the government of India finds itself. The attitude of that government is all important when we consider this question. According to the latest of your Treasury reports the world's production of silver at present is a hundred and fifty million odd ounces. Now, the government of India, according to their latest financial report, purchased last year 90,000,000 ounces to convert into this coin [producing a rupee], coining at their mints more than 222,000,000 rupees in a single year. Again, the absorption of silver in the arts and manufactures, as given in your report, amounts to 50,000,000 ounces annually; so, in effect, the entire silver production of the world is being purchased by the government of India and by the world's silversmiths. When the Indian mints were closed in 1893 Sir James Westland was finance minister. He was unfor-

tunately the only finance minister that India has had in my time who knew nothing either about currency or exchange questions. The Indian mints having been closed to free coinage, Sir James Westland's idea was to apply a gold standard—yes, but a gold currency also; and this latter was ridiculous and quite impracticable. However, to carry out his idea during the years from 1893 to 1898, Sir James not only coined no rupees, but he melted up large numbers, selling the bullion for gold, intending to give this gold in the form of currency to India. But all that he was able to spare to the melting pot during the five years from 1893 to 1898 was 19,000,000 rupees, not one-tenth of the number of rupees that the government coined last year, and yet the contraction in India's currency resulting from five years' cessation of coinage and this small melting induced a veritable money famine. So terrible was this money famine that in 1898 rupee loans were made in Bombay at 2 per cent per month on the security of gold bars.

At this point the Westland experiment broke down, for the currency famine took on the appearance of a food famine; a quarter of a million people were being fed by the State, while thousands died. Rice and small grains were not really very scarce, but there was no money up country with which to buy or move them. In short, starving the Indian currency merely by ceasing to coin new rupees for five years had brought our great Indian dominion to a state of barter. When Mr. Clinton Dawkins succeeded Sir James Westland he recognized the disease at once; a money famine had been created; the Indian government immediately reversed their policy and commenced to purchase vast quantities of silver and to pour it through their mints. In 1900 the currency was expanded by over seventeen crores of rupees (171,479,318 rupees). Since that time the demand by India for rupees has been insatiable. As I have pointed out, the Indian government last year bought nearly two-thirds of the whole world's silver product and coined 227,670,000 new rupees, the mere seigniorage profit on which was $20,000,000. So that the Westland idea of 1893 of starving the Indian currency until a gold habit was acquired, until a gold standard and gold currency took the place of a silver standard and silver currency, this has given place now to far larger coinages of rupees with "closed mints" than were ever coined with open mints. But to-day the only man who can supply the merchant with the rupees he needs to buy wheat, cotton, rice, or tobacco is the secretary of state for India. The secretary of state for India is the silver king; he is the great rupee monopolist. Before the Indian mints were closed to free coinage in 1893 the merchant had this protection: He could buy silver from Colorado in the open market, send it to Bombay and have it minted into rupees, so that he was not at the mercy of the secretary of state for India; but to-day to buy the rupees he requires to pay for the products which he imports into Europe the merchant must go to the secretary of state, who sells him rupees at what price he likes. The price fixed by the government of India for a rupee to-day is 16 pence. Next year if they raise the rate to 18 pence or drop it to 14 pence the merchants operating in Indian produce will have to acquiesce or go out of business. At present the silver in the 16-penny rupee is worth just 10 pence gold, so that on any rupees coined to-day the Indian government has a profit of 60 per cent. The profit on seigniorage at pres-

ent stands second only on the revenue list to that which the government receives from its land tax. It is a vicious and immoral system, this of selling full legal tender currecy, the money of exchange, at a huge premium. Mr. Morley no doubt regards it with great misgiving.

Mr. WEEKS. What percentage is the seigniorage of the total Indian revenue?

Mr. FREWEN. I should have to refer for that, but I think the total Indian revenue is about eighty millions sterling.

India, through its secretary of state, Mr. John Morley, dominates the silver question. They have arrived at a system which cheapens silver bullion to just that point where their export trades in many staples can compete most successfully with yours. They have arrived at an exchange point which, as they think, gives them the largest seigniorage profit possible and yet permits their export trades to prosper. Is it not, therefore, time for your country to take a hand in the silver discussion? If you can through the Goschen plan get the price of silver bullion up to something like a dollar an ounce then your exports from this country will be stimulated at the expense of exports from India and China. That is an argument which, as I said before, does not appeal to us in England to quite the same extent. Our statesmen say, "Why connive at a change in exchanges which will enable the United States to export at India's expense wheat, cotton, jute, rice, timber, and other staples which at present reach us from India, a part of our own Empire; and why also by expanding the exporting capacity of the United States, which is already preponderant, place our gold market still more at her mercy?" Of this nature will be the objections to the Goschen plan in England; to a certain point they are valid objections, but I am convinced that the long-continued low rates of silver exchange have been undermining the industries of white workers everywhere. You may recall that before the election of 1896 your then Speaker, Thomas B. Reed, crystallized the exchange problem in a very happy phrase. He said, "I have come to see that the yellow man using the white money may cut the throat of the white man using the yellow money."

Before concluding I wish to say that on one point where I was not at all clear a few years since I am quite convinced to-day. We reformers thought that the great rise of prices which we foresaw must follow from the new gold discoveries—that this would settle the silver question; but we ought to have foreseen that, far from settling the question, it must inevitably, after a short period of adjustment and excitement, recreate the disease and in a more virulent type, because as gold prices rise—and they are certain to rise much higher during the next ten years—so also wages and the whole cost of living in gold-standard communities must rise pari passu. Already here wages have largely adjusted themselves to the higher profits resulting from higher prices. But what of Asia? There there is not as yet even a faint symptom of a rise in silver prices. In Asia wages and the cost of living are just what they were thirty years ago. So that the rise of gold prices in Europe magnetizes every product which Asia can pile on shipboard to export. Asia, that is, gets more rupees or dollars or taels with each advance of gold prices in Europe, and because her wages and her prices show no tendency to advance she more and more holds the competing industries of white men by the throat. If silver prices in Asia remain fixed and immovable (and until the mints of

India reopen they will, in my humble judgment, remain fixed and immovable), the happy dictum of Speaker Reed must with each fresh rise of gold prices recur more and more to the minds of all those who to-day are anxious students of the great problem of silver. Nor is it only from Asia that competition, subsidized by the gold premium on silver currencies, is destined to increase. I was shooting two winters since in East Africa on the Victoria Nyanza. The cheap rupee of the government of India has already in only ten years covered a huge country there. It is beginning to be the center of attraction for countless native tribes from Abyssinia to the Kongo. As in Hindustan, so also in East Africa it is being hoarded on a great scale. On returning from the 'great lakes I learned from the bank in Mombasa that they had imported from India over 9,000,000 rupees in five years. In a quarter of a century it is safe to predict that the rupee will rule all the exchanges of Africa from Egypt to the Zambesi. Whether this new trade development helps us or hurts us will largely depend on the exchange value of the rupee. Such is the new phase of the silver question; your community will never consent to leave an issue of such magnitude where it is to-day at the mercy of the season's rains in Hindustan. As a palliative, then, as a mere makeshift to carry the world along for twenty years until it has found time through study to settle the problem on wise and wide lines—a problem which vitally concerns all white men—I have ventured to submit for your consideration the Goschen plan.

Mr. HAYES. I do not suppose you are aware that we have in this country, perhaps not in actual circulation, but in the banks, among the people, something like four hundred and sixty millions or four hundred and seventy millions of dollars of silver certificates secured by silver deposited in the Treasury, and mostly ones and twos.

Mr. FREWEN. I am aware of that, but you will bear in mind that the radical distinction between Mr. Goschen's proposition and the legal status of your silver certificate is that the notes he proposes to issue will not be legal tender.

Mr. HAYES. Ours are not either.

Mr. FREWEN. The silver dollars are; true, your silver certificates are not; but as long as the man who owns the silver certificate can demand a legal-tender dollar for it, to all practical purposes the silver certificate is legal tender. But the only point I wanted to emphasize to the committee was that Mr. Goschen's proposition was to issue nothing but token money, and all economists are agreed that token money, the legal tender of which is limited to $10, has no effect upon prices.

Mr. HAYES. Then you think it would be safe under the circumstances, considering that we have five hundred millions of currency in the shape of silver certificates, that it would be safe for us to still add further to that stock by issuing such money as you suggest?

Mr. FREWEN. I think it would be perfectly safe. There is no insecurity whatever in issuing pocket money which is strictly limited in its legal tender to $10. It would be merely for the convenience of the people and it would have no effect on prices whatever, and through prices on the exchanges. This proposition, so far from being an inflation, is distinctly a contraction. Of course I can understand that your silver men may object to it on the ground that it is a measure to contract your currency.

Mr. WEEKS. Mr. Frewen, at the last session of Congress we passed, in connection with other currency legislation, a bill which cut up our gold and silver certificates. There is a great demand for small bills in this country. A large proportion of the people in our country do not bank at all owing to the remoteness of the banks, and I presume, in proportion to the population, a greater amount of money is carried in the pockets of the people than in other countries. To meet that demand we cut up our gold circulation into smaller bills. Since that time it is perfectly apparent to anyone that there are great numbers of these bills in circulation which were not in circulation before. Basing the thought on your suggestions, that was bad legislation from our standpoint, because it put into the pockets of the people full legal tender money when they might just as well have used something in the place of it; in other words, we were doing exactly the opposite thing to that suggested by Mr. Goschen in his speech of 1891.

Mr. FREWEN. We thought in England that your legislation of last session was most unfortunate. Those big gold certificates should have been on deposit at the banks. If you have a certificate for a thousand gold dollars, that certificate will not be carried in the pockets of the people. It is credit money, but if you break it up into small notes it becomes mere pocket money.

Mr. WEEKS. I am inclined to think that is right.

Mr. GILLESPIE. As to these notes that you speak of issuing, they would only be redeemable in silver, and not in gold.

Mr. FREWEN. Yes.

Mr. GILLESPIE. And the legal tender limit would be $10?

Mr. FREWEN. Yes.

Mr. HAYES. They would have to be redeemable to the extent of $10 in gold in order to maintain their parity.

Mr. FREWEN. They would be legal tender for $10, and in effect no doubt they are exchangeable by the holder for gold to that extent.

Mr. HAYES. To that extent?

Mr. FREWEN. Yes; only they would not be secured by gold.

Mr. GILLESPIE. If they are redeemable in gold, in case of a crisis there is always a run for gold everywhere, and would not these limited notes come in to the banks and would not the people everywhere demand gold?

Mr. FREWEN. I think not, because they are not money of deposit at all, but simply fractional pocket money—token money—such as we have in our country, the half crown or the shilling. You will carry these notes for the purpose of shopping. I incline to think that the banks should not receive them on deposit at all. The banks in our country are not obliged to receive half crowns, but they do so to oblige their large customers. I think it would be a good thing if the banks never received the proposed small notes; their refusal would keep them in circulation.

Mr. JAMES. You think it would be impossible to gather up a suf ficient number to make a run on the gold reserve?

Mr. FREWEN. Yes.

Mr. CRAWFORD. Do English consols circulate as money?

Mr. FREWEN. No.

Mr. CRAWFORD. The interest-bearing consols?

Mr. FREWEN. Our consols do not circulate as money at all; they are not used as yours here as a basis for national bank currency.

Mr. PRINCE (Acting Chairman). I want to read from the national bank act regarding legal tender and lawful money (reads):

The following statement concerning the legal-tender properties of money of the United States is based upon United States Revised Statutes, sections 3585, 3586, 3587, 3588, 3589, and 3590, and the acts amendatory thereof and additional thereto: "Gold coin, standard silver dollars, subsidiary silver, minor coins, United States notes, and Treasury notes of 1890 have the legal tender quality as follows: Gold coin is legal tender for its nominal value when not below the limit of tolerance in weight; when below that limit it is legal tender in proportion to its weight; standard silver dollars and Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract; subsidiary silver is legal tender to the extent of ten dollars, minor coins to the extent of twenty-five cents, and United States notes for all debts, public and private, except duties on imports and interest on the public debt."

Perhaps you have not seen the February statement of the Treasury Department, have you?

Mr. FREWEN. No.

Mr. PRINCE. The clerk will show you that, and after you have been kind enough to look at it, will you please answer this question: By that statement of February 1, 1908, you will see that we had on that date 562,849,982 standard silver dollars, which are full legal tender. Now, casting your eye over that statement you will find that the total amount of money and currency that we have in circulation, or in the general stock of money in the United States, is $3,380,452,108. The estimated population is 86,903,000 and the circulation per capita is $35.61. All of that money that I have enumerated, $3,000,000,000 and over, is on a parity with gold, of which there is less than one-half which is gold; in other words, $1,638,000,000. Now, if you had in circulation what is called the "Goschen note"—and under our law all classes of money and currency must be maintained at a parity with gold—are you not endangering the gold basis?

Mr. HAYES. Yes; and wouldn't it result in exporting gold in a short time?

Mr. FREWEN. Oh, no; what expels gold is the movement of your exchanges. If you inflate your currency you raise your prices, increase your imports, and your gold leaves to pay for increased imports. But pocket money—the small fractional money—has no effect on prices. It is the credit money that raises prices and influences the exchanges. The whole position is this: If the Goschen notes were unlimited legal tender, I should at once say, of course, they might expel gold. If you make an issue of full legal-tender money to that extent—and I use the word inflate scientifically—you "inflate" your circulation, to however small a degree. If you inflate your circulation you raise your home prices, and if you raise prices here you increase imports, and if you increase your imports you throw the balance of trade to that extent against the country and drive gold out. That is the only way in which you can expel gold.

Mr. PRINCE. Your idea is that these notes being in small denominations, and being scattered throughout the country and held only in the pockets of the people, it would be next to impossible to gather them together in such quantities as to present them in sums of $10.

Mr. FREWEN. You could not present them legally—legally they *are a demand for* fractional silver only.

Mr. PRINCE. That is, they are legal tender up to $10, so that if you gathered enough of them together to make $10 you could then ask for gold?

Mr. FREWEN. You could only ask a bank for the $10 once; you could not present another and get the gold. You could not hand in a million of them and receive a million dollars.

Mr. GILLESPIE. One man could go to the bank ten different times a day, could he not?

Mr. FREWEN. But that would be a small matter.

Mr. GILLESPIE. Supposing there should be a hundred men doing the same thing?

Mr. FREWEN. That is still a small matter and would not make a run on the bank. In short, these silver notes, even to $10, are not a demand for gold, but only for fractional silver.

Mr. PRINCE. We have had the operation of an endless chain in this country, and as the result of that endless chain there was a drawing out of gold, and we had to issue about $260,000,000 bonds to maintain that chain. We have only 7,000 individual banks. It might be that this is only a notion in one's head, but still——

Mr. FREWEN. You can not be too careful; I agree with you there.

Mr. PRINCE. It might cause some disturbance.

Has your attention been called to any of the pending bills in the House for consideration? For instance, has your attention been called to what is known as the new "Fowler bill," the one that the committee now has under consideration?

Mr. FREWEN. No, Mr. Chairman; it has not.

Mr. PRINCE. Has your attention been called to the bill that is being discussed in another body, and which has been printed in the newspapers and is known as the "Aldrich bill?"

Mr. FREWEN. I have read Senator Aldrich's speech, so I am generally conversant with its conditions.

Mr. WEEKS. Do you think the silver notes suggested in the Goschen plan would have any other advantage over a properly issued credit currency note than the stimulation of silver mining?

Mr. FREWEN. Yes; that is the point I tried to make. The all-important point is the rise in the exchange rates with the Orient. This is the only point interesting me in connection with what is called the silver question. Whenever the bullion price of silver falls you stimulate all that which is export. Anything that will give employment to silver and thus keep it at a higher rate will enable you to compete on much better terms with what Asia exports to Europe.

Mr. WEEKS. Suppose China should go to a gold basis?

Mr. FREWEN. Well, look at the position of India with a gold standard. We shall never get a gold currency into India or China. There is all the difference in the world between a gold standard and a gold currency; but to some extent the fact that the rate of exchange is being held artificially that coin, which ought to have a bullion value of twenty-one to the pound, is being held artificially at fifteen to the pound—that does to some extent cripple India's power to export, but to a limited extent. The exchange rate for the rupee is fifteen to the pound. I would like to see it at thirteen to the pound; at that exchange silver is cheap enough. Have you got a reply to your question? The point of great importance to my mind

is, that if you can safely do something on the Goschen lines then the rate of exchange will go up; in other words, the bullion price of silver will go up, which will increase your exports immensely to Asia. That is why I should like to see the Goschen plan adopted here and in England.

Mr. Chairman, I know that notwithstanding the difficulties I have pointed out—the fact that the government of India makes four millions sterling of profit on seigniorage, and the fact that India is our ward and we are therefore tender about their export advantages—yet we had so hard a time last winter after your crisis, the banks raising rates to 7 per cent, that we are in the mood to consider some careful measure of reform. I believe such a measure as Mr. Goschen's would carry the city of London with it, and that it would satisfy the chancellor of the exchequer. If you had a commission here, and would send over a subcommittee such as the Wolcott Commission, which had satisfied itself that this solution of the currency question—the Goschen solution—is sound, I believe the two countries would adopt it. I think it likely also that Germany would adopt it.

Mr. WEEKS. Do you think it would be wise from every view point on the part of this Government to try to open up negotiations with your country along the lines of the Wolcott Commission?

Mr. FREWEN. I think that if you appointed an expert commission, not on the lines of the Wolcott proposal—that day is gone—I have here the reply of the government of India to the Wolcott proposals—but if you would make the point that America now recognizes that the government of India is able to buy and coin two-thirds of all the silver mined in the world for the Indian currency, that so great an addition to the Indian currency has not affected India's prices at all; that is, prices in India have not risen at all—that Africa is commencing to absorb large quantities of silver—if you take that line and say, "It encourages us to believe that the settlement of the silver question is not after all a very large one," it seems to me that we could join you and Germany in issuing these proposed small notes in order to get in those three countries large central gold reserves. I believe along those lines a safe settlement of the currency question can be greatly advanced.

Mr. WEEKS. When settling the currency question along those lines, would it materially affect the currency conditions throughout the world?

Mr. FREWEN. Oh, yes; it would immensely. It would raise the rates of exchange against the whole of Asia.

Mr. MCKINNEY. As I understand you, the silver notes issued along the lines of the Goschen proposal would be redeemable at our Treasury in silver?

Mr. FREWEN. Yes, sir.

Mr. MCKINNEY. Taking into account the fact that we have issued silver certificates for nearly all of the silver that we have in the Treasury, in order to provide for the redemption of these new notes, would not our Government have to go to work and buy silver again, and would not that tend to disturb our present standard?

Mr. FREWEN. Not the least, as long as the notes issued are of limited legal tender. The notes could not expel a dollar of gold from this country under any conceivable circumstances. On the contrary,

but indirectly, they would bring you much gold through the increase of your export trades which they would bring about.

Mr. WEEKS. What would be your opinion as to the effect if you did not make them legal tender in any amount?

Mr. FREWEN. Well, you must make them legal tender to a limited amount. Pocket money is pocket money, and token money is token money. There is no token money in the world that is not legal tender. If you did not make them legal tender, would any one receive them, say, at your post-offices? The Wolcott proposition was that we should increase the tender of our silver money—increase it from £2 to £5—but I do not think there is any particular point in it; it is not worth urging. I think that $10 is as good a limit as $25.

Mr. GILLESPIE. Do you think that this $500,000,000 could go out among the people and have no particular effect on prices?

Mr. FREWEN. In the first place, this five hundred millions of fractional currency takes the place of full legal-tender gold notes. You are going to contract your currency to the extent of $500,000,000. The result should be some slight fall of prices.

Mr. GILLESPIE. Then the available supply of full legal-tender money would be increased $500,000,000.

Mr. HAYES. His idea would be to pile up the $500,000,000 in the Treasury.

Mr. FREWEN. You would have $500,000,000 of gold in a reserve for the purpose of meeting a crisis; it is to be locked up.

Mr. PRINCE. In other words, it is currency substitution and not currency inflation.

Mr. FREWEN. It is contraction and not inflation. You would be contracting the full legal-tender money current and you would put in its place nonlegal-tender money, which has no effect on prices.

Mr. GILLESPIE. If it became necessary to turn the legal-tender money loose again in the country, that would have an effect on prices?

Mr. FREWEN. That would be to return in a crisis the five hundred millions by which you contracted your currency.

Mr. GILLESPIE. Suppose we wanted to prepare for war and had to use this $500,000,000—put it in circulation. We would have to provide the legal-tender gold and the small notes, would we not?

Mr. FREWEN. The small notes would at no time and under no circumstances have any effect on prices; you would be incurring no risk. Suppose that you had accumulated this $500,000,000 that I have been talking of, and it had been in your Treasury last October—suppose that Mr. Cortelyou had had $500,000,000 of free gold at his disposal. Would not the situation at that time have been immediately relieved?

(Adjourned at 12 o'clock noon.)

HEARINGS

ON THE

FOWLER BILL

H. R. 12677

STATEMENT

OF THE

HON. LYMAN J. GAGE

Ex-Secretary of the Treasury

COMMITTEE ON BANKING AND CURRENCY
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 19, 1908

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1908

HEARING ON THE FOWLER BILL.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, February 19, 1908.

The committee met at 11 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF HON. LYMAN J. GAGE, EX-SECRETARY OF THE UNITED STATES TREASURY.

The CHAIRMAN. I present to you ex-Secretary Gage, who has come here upon invitation to address us relative to proposed legislation and who will proceed to make his statement, and after he has finished he will be very glad to answer any questions that the gentlemen of the committee want to ask him.

Mr. GAGE. Mr. Chairman and gentlemen, I do not know but I ought to apologize to you for coming and thus intruding upon your time. I think perhaps I ought to apologize to myself, for I was free from trouble and cares of all kind, with no responsibilities resting upon me, and here I now am mixed up in something that only concerns me from a general patriotic point of view. It only concerns me, as I say, as a citizen, and as a man who loves his country.

We have reached what I think is the most important period in our history for forty or fifty years, and that is the determination of the question, the solution of which depends very largely upon the body of men composing this committee. So I think if there is anything that I can contribute, either to show you by my ignorance what you ought not to do, or by my experience and correct reflections, if they are such, what will help you see what you ought to do, then in that case I believe it to be my duty, not my pleasure, although there always is a degree of pleasure in performing one's duty, to accept the invitation of the chairman to come here and speak the truth as I see it.

I question how I ought to proceed in what I have to say. All of you know, if you know about me at all, that I am not a trained speaker, and I have been at a loss how to proceed in presenting the ideas that I have in mind.

The philosophy of finance, the metaphysics of currency, I have only studied in a way. The convictions that I have reached are the result of certain experiences in my life, the observations which I have made, and the reflections which were the natural results of that experience and observation. These have to a degree been confirmed by such reading as I have been able to indulge in, of the works of those who are wiser and understand more thoroughly the principles and philosophy of the subject in question, and so I have concluded, at the risk of appearing to be very simple, if you will

indulge me, to take you as briefly as I can over the road of observation and experience and reflection which I have come, that you may judge thereby of the merit that attaches to what I may say. I see two gentlemen here at least who will, quite likely, follow me, if I give them time, who will speak of the matter from higher standpoints of what I would call the philosophy or the metaphysics of money, finance, and banking. So if you will let me follow my simple road, it may sound a little personal, but I can not help that.

In 1854, a lad of 18, it was my very good fortune, as I regarded it then and as I regard it now, to become employed in a little bank as a junior clerk in the State of New York, in a small town near the center of the State. The bank had $50,000 capital. It had about $75,000 in deposits, and it had a right under the law to issue $50,000 in notes. I observed that the business of the bank was to guard its deposits with proper reserves in money, to protect its deposit line, and to guard its outstanding notes with a proper reserve to protect them when presented for redemption. There were two places of redemption for the notes. One was in the town where the notes were issued, the bank's counter; the other was in the city of New York. I observed shortly that the bank was exceedingly cautious about the use that was to be made of the credit that the bank gave out to its customers in exchange for the obligations that it took from its customers.

As I say, like all banks, it was restrained in its operations by the limitation of its reserve money, and when the relation of things was about normal or satisfactory, it could not loan, if thereby it should be obliged to take its reserve money and hand it to a customer in exchange for his obligations, for that was giving cash in exchange for credit. I found it was the business of the bank so far as possible to give credit in exchange for credit, and the credit made by the bank to the person who gave it his obligation being put upon its books was likely to be transferred from one to another through the instrumentality of checks, and so not peril or prejudice by exhaustion the cash resources. Such credits therefore were fairly given. But the same rule applied to the issue of its notes.

A borrower came to the bank and wished to make a loan. He could not avail himself of the result of the credit if placed on the bank's book and availed of by his checks, which would be transferable in the field of circulation which limited the bank's business horizon. In such a case circulating notes or currency could be perhaps utilized for the borrower's purpose, and perhaps to the advantage of the bank, and the question always arose, "What do you want to do with the proceeds of this credit?" If the man wanted to borrow and buy securities with the money, if he wanted to borrow and pay a note in the next town, the bank would not issue to him its notes; it would not give him credit upon its books. In short, it would not exchange its credit for his, because it was easily seen that through the instrumentalities which he would use, whether by his checks or by the notes which they would give him, he would attack and deplete by so much the cash reserve which supported and protected the whole line of liability. The notes would attack the reserve situation by going strictly to the redemption agent in New York and there be redeemed. His check would exhaust the reserve by being collected in the next town where he gave his check in payment for his notes.

But if it appeared, as in very many cases it did appear, that man wanted currency for some of the commercial or industrial uses of life, like the payment of employees, like going up into the "north woods," as we called it then, to pay men for getting timber and doing a logging business, or going into Indiana to buy wheat, or into Wisconsin for that same purpose, or into Ohio for the purchase of wool, and all those miscellaneous purposes which go to make up the products of industry, and start them forward to market, then by the power that the bank had to issue its unissued notes, which might still lie unused, the bank was glad to make that transaction, and the money (bank notes) was available to the man if his credit was good so that the bank was willing to take the risk. But so jealous was the bank as to the use of these notes that it was my duty, as a junior clerk and general all-round assistant, to take the bank's notes which were brought out from the vault, preparatory to giving them to the borrower, and take a small stamp which made the letter E or X or Y, no matter which, and stamp every note and then make a memorandum upon a book kept for that purpose of the date and the amount of the issues and how marked, and as those notes came in for redemption to watch the average time of circulation which they would enjoy.

I did not perceive the relation of things so very clearly at that time, because I was young and did not reflect so very much. Then I went to Chicago a year and a half later, and after two or three years of knocking about I again found myself in a bank operating under a State charter, clothed with the powers of a trust company and savings company, but with no power to issue notes. I found the situation there something like this: A great variety of banks and a great variety of currency; there were notes in circulation issued by certain banks specially chartered by certain States, doing business and issuing notes. There was the State of Illinois banking system, which was called a system of free banking; that is to say, any five persons, I think it was five, could associate together, start a bank, notify the auditor, put up some State bonds of any of the sovereign States of the United States, and have issued to it currency notes, strictly in accordance with the formality that exists regarding the national-bank notes at the present time.

These banks so chartered and organized were required to redeem their notes at their counter and not elsewhere, and, with a very wise or discriminating regard to the responsibilities of redemption by the organizers of the banks, the places chosen for the organization and location of these banks were generally so obscure that nobody would dare go across the country with the notes to get them redeemed. And I believe this actually resulted in the course of that business, to wit: A group of men putting together $100,000 would organize a bank; they would buy the bonds and deposit them with the auditor of the State, draw out the money or notes—they were not in the business of lending much money, the places where these banks were situated didn't have much business to do generally—and they would take the notes and go to the various markets, like Chicago or elsewhere, and buy commodities, wheat, corn, flour, ship it to New York, turn it into the money of the country, take the proceeds, buy in the market more bonds and start a new bank by putting up the bonds, get some new currency, and do the same thing over again; so that with a capital of $100,000 a man or party of men could have about six

or more banks and be drawing interest on $600,000 or more bonds. But they were brought forth as a bank note, secured by the sovereign bonds of a State, and people took the money, and those taking it passed it off on somebody else. No one would go to present it for redemption at the place it was issued.

I remember an incident touching upon that particular point. The institution to which I was related, having no note issue and being inimical to this principle of currency, organized a raid upon these various banking institutions, so-called, that is to say, it sorted their notes and by special messengers sent the notes home for redemption in gold. I remember specially being very diligently occupied for some days in sorting out the notes for a particular bank until we had accumulated some $25,000 or $30,000 of the issue of the bank of Rushville, I believe it was, and three men, with about $30,000 of that money, started for the bank to get these notes redeemed in gold, or bust the bank. They were gone about ten days. Anxiety sprang up in the minds of the officers of my institution as to what had become of these men and the money—particularly as to the money.

At the end of about ten days the men returned with the notes they had taken away and explained that they had taken the prescribed route; they had gone by rail to a certain place, and had taken a stage and had gone to a certain other place; that from thence there was no stage line over to the other place where the bank was, and so they had hired a private vehicle to take them over there, but they were strangers and were under suspicion, and somebody smelled out the object of their visit and they were informed by a committee of men that if they came down there "to break their bank" they had better start back, because neither they nor their money was safe on any such kind of an errand as that, and so they prudently returned. I found then that a bank note, even if secured by the bonds of a sovereign State, was not naturally a virtuous currency, nor was it naturally responsive to any of the requirements of business at all, but it was issued and it operated upon considerations entirely distinct and separate.

Now I found that there was another institution, or rather individual who ran a bank, and his name was George Smith. He came from Scotland, and I presume had a training in the Scotch system of banking. He was a "canny" man, as the Scotch are, careful, judicious, conservative, and wise. He had a limited amount of money, probably $100,000. He found himself in a community rapidly developing, for the comparatively little city of Chicago was the center where the market roads from the country naturally focalized and the products of the country were coming in to be sold and exchanged preparatory to being shipped by the water routes to the east. He found also that there was a considerable activity in the way of building around the city; it had its little factories, and its warehouses, and its dwelling houses, and so forth. He found an absolute poverty in the means of circulation. Some gold had been brought into the country and circulated, and some of those notes I have been speaking of were circulated, but it was as expensive to the banks to get these notes as was gold itself; that is to say, they had to give value to get them equivalent to what they would have to get the gold, only they could get them easier.

George Smith conceived the idea that as his credit was established, as he understood the business of banking, he could serve the community usefully and with profit to himself, the last probably being his chief motive—a motive that animates most men. He had no power under the law to issue notes. But there are ways around a law oftentimes, as we have found in our experience. So he bought the charter of a bank in Georgia, called the bank of Atlanta, which had a right to issue notes. It had no capital; it was inert and substantially dead. He bought that charter, organized the bank, and issued to George Smith from time to time, the notes of the bank in exchange for his obligations, I presume—I never knew the real inwardness of it—and across the back of these notes he stamped these words: "Redeemable in gold coin at the office of George Smith in the city of Chicago." So he acquired all of these notes, which cost him nothing except his credit with the Bank of Atlanta. These notes he loaned to the public to the amount of something like, at one time, from the best advice that I can get, $1,500,000. Those notes were the most popular and held the highest degree of confidence in the minds of the people of any currency extant and passed current in that district of the country tributary to the city of Chicago. He continued this business for a number of years, then the shadows of the civil war grew black and ominous, and, canny Scotchman, as I said he was, he smelled danger from afar, he liquidated his bank, he redeemed all of his notes, he paid all of his depositors, and he went home to Scotland to enjoy the fortune that he had either well or illy earned by ministering to the industries and commerce of a great State.

That was a lesson to me in contrast to the other lesson in a State bank secured circulation. I saw a credit currency issue, with proper assets behind it, containing only the elements of credit, was an effective, useful, and economical agency in the industrial exchanges of the people.

There was another instance near by that enforced upon me the same proposition. That was the Bank of the State of Indiana. The Bank of the State of Indiana was in existence in those times; Hugh McCullough was president of it. It was chartered by the State; it had eighteen branches, and at all those branches it did business, the central office being only the administering bureau for all. It had a right to issue notes, without putting up any of the bonds of anybody, to the amount of twice its capital stock. It did business and performed for many years in the most safe manner the functions of banking in the State of Indiana to its great advantage. It was never able to put out conservatively and safely more than half of the limit of circulation that the law gave it, and the Bank of the State of Indiana notes were recognized in the New York market. The notes issued under the secured system of the State of Illinois were tabooed, except in the brokers' offices, at a discount, in the city of New York and all commercial centers.

I became acquainted with the fact that the State of Louisiana had a system somewhat similar to the bank of the State of Indiana; that is to say, they had a credit note system issue, requiring the banks to hold against the note issue 33⅓ per cent, I believe, in specie and two-thirds in good commercial bills, not stocks or bonds, and for many years that bank performed its function. But those banks under the Louisiana system were finally taxed out by the desire of the Govern-

ment "to get revenue," if that was the real desire of the Government, and retired—that is to say redeemed—all their notes, organized under the national law, and continued their operations as banks in a manner much less effective to the general community than they had performed it before Congress tied up their capital by compulsory investment in securities, viz, United States bonds, to become hypothecated 1,000 miles from home. The banks of the States of Missouri, Iowa, and Ohio were similar to the Bank of the State of Indiana. It was a credit currency system.

As a clerk in this bank in Chicago, as time went on, it was my duty to sort the money, to keep the best, pay out the poorest. That is human nature, too. The money we saved was the money of the Bank of the State of Indiana in our tills, the Bank of the State of Ohio, and of Iowa, and New England money, so far as we desired to have a reserve of currency. We were on a specie basis at that time nominally, but there was very little gold in the reserves of the banks. As I said a few moments ago, in the beginning the public, especially the State of Illinois, thought it had the model system of notes secured by bonds of the sovereign States; but a change came over the situation. State bonds began to depreciate in value in the market. The banks that I have described in the State of Illinois secured by these bonds, one after the other, unable to find gold for exchange for its notes on the first presentation of any volume of these notes, straightway suspended payment. Under the law the banks were closed out and the auditor sold the securities for the benefit of the note holders. These notes were in considerable volume and passed through the hands of our bank, and day after day we sorted these notes with reference to a schedule which showed the value of the securities of each bank; we sorted out and kept those that we considered the best and those that were the poorest we paid out. And that was human nature, anybody would have done it. The net realization to the note holders under that system of the State of Illinois as a result of liquidation was somewhere between 40 and 50 cents on the dollar.

The loss to the note holders under the George Smith method and the Louisiana system, the Bank of the State of Indiana, and Iowa, and Missouri and Ohio was nothing. And so it came to be borne in on me that what is called a credit currency, which enabled a bank to give its credit in exchange for the acceptable credit of its customers, properly guarded and protected, and based upon sound banking, with honesty and integrity upon the part of the administrators of the credit, was the truest, best, most adequate, and practical system of banking and currency as compared with any other. Now, I think I am through with the sketch I have indulged in. I indulged in it simply for the side lights which it may furnish to the consideration that you have got to give to the great questions of banking and currency, which it is your special duty to consider and determine.

Now, afterwards the Government wiped out all these banks of issue, good, bad, and indifferent, by taxing them out of existence and introducing the national currency system which is now in vogue. So charged was I by the influences of these things I have been speaking about—to wit, the principle of credit currency—that, as a national banker, when I came into the position of control or substantial control of a large institution I would not issue notes under the national-bank act. The reason why I would not do so was that I would not

secure part of my liabilities in the form of notes by especial pledge of the property of the bank to the prejudice of those whom I owed on book account. The profit on circulation was not so very tempting. If it had been, perhaps I would have fallen like most all my friends did.

Now we have got the system as it is. Is it an effective system? Does it meet the needs of the country? Is it responsive to practical needs, and is it in accordance with the true scientific principles which ought to govern banking and banking functions? They say everything is relative, and a comparison is the best way to show a fact. Therefore I will venture to refer to the historical operations of a great bank in another country—the Bank of France—and ask you to look at its history and our own.

The Bank of France was established about the year 1803, I believe. It has the power substantially unlimited of note issue. Its credit notes in circulation have always been four or five or six or eight times its liabilities on its books. Its notes always circulate as money in the community. It continued undisturbed through the revolution of 1830 of Louis Napoleon, which disturbed the political condition of France to its center; it went on undisturbed in its operations and performed its functions, viz, to give its obligations in exchange for the obligations of those engaged in commercial and industrial pursuits, uninterrupted by the coup d'état by which Napoleon III made himself Emperor, it came into the period of 1870 and 1871 when it saw its country devastated—nearly ruined. France was at the close of an exhaustive and futile war, its enemy was in possession of its capital, the country was under duress to pay a thousand million of dollars of war indemnity. It witnessed the rise of the "commune" with its régime of bloodshed, murder—of course all industries suffered—commerce was afflicted, and misery fell upon many people, especially in the besieged cities, but the bank continued its functions uninterrupted, without any panic. It did suspend specie payments on its notes, out of prudent considerations, to control or to a degree put a limit upon the foreign export of gold, but at no time during this period of which I have been speaking did gold in France or on the Bourse at Paris, command a premium so high, measured in the notes of the Bank of France, as ordinary paper currency commanded in this country at the close of the most prosperous years the country ever knew.

These things are painful contrasts, and they need to be inquired into. Is the national system of currency and banking as now operating an effective system? It is not inviting to the public at large, for not more than half of the banking institutions and those who desire to engage in that business have embraced the provisions of the national banking act. We have 6,500 national banks organized over the country. They are each independent institutions, with no natural power of attraction toward each other by any law of self-interest. On the contrary, as quick as a crisis comes they become charged with the influence of a mutual repulsion, and each one by the instinct of self-preservation, or a narrow self-interest, begins to pull out of the community the elements of strength for itself. They refuse, as is demonstrated completely without any illustration—they suddenly refuse to perform the functions of a bank, which is to give credit in exchange for the credit of the community. They will no longer extend their credit.

On the contrary, they insist upon the liquidation of credits due to them from the public, and the ruinous loss to the industrial classes—those who produce from the soil, those who work in the factories and those who are employed in common labor—can not be measured by any rule that I know of. We only know it is enormous and that the losses and adverse consequences which are so plain will for some time be continued.

Now, is there not need for thorough revision? Do we not want to put the banking and currency system upon the basis where, if you please, the creator of it will be willing to trust it for a day or two? This system, created by the Government, supervised by the Government, in existence for forty-four years, with plenty of opportunity to observe its weaknesses and to strengthen it at points where it was weak, has been held out virtually by the Government to the people as entirely worthy of respect and confidence; and the people, to the extent of four thousand five hundred millions of dollars, as evinced by the debts of the national banks, have taken this representation, or this implied representation, as valid and have intrusted their interests to that extent to these institutions. Has the Government set the example of trust and confidence in these institutions it created? No. That is patent, manifest, and notorious—never to the extent of one dollar; it will not even take a certified check on the best of its creatures in payment for a revenue of $100 coming to it from the most responsible citizen. I think the system ought to be revised from the beginning—that is to say, in all the important elements that constitute its foundation.

I shall get along in a few minutes——

The CHAIRMAN. Do not mind the time.

Mr. GAGE. I shall get along to a point where it will appear, and I may as well anticipate it now, that I am opposed to the measure originating in the Senate, which is offered as a curative of the evils and weaknesses that inhere in the system. It will appear further that I regard the bill before you, known as the "Fowler bill," as a very comprehensive measure, containing in itself evidence that the author understands clearly and explicitly the principles which underlie the banking and currency relations of the United States, and has brought forth a measure which in contrast to the one offered in the Senate does reach to the fundamentals. We know that something fundamental is necessary—something which will make the national banking system (if we want to keep it going) substantially uniform and more effective in its application to the country's needs; but before any measure that reaches fundamentally to a fine foundation can be inaugurated and adopted some difficulties and embarrassments must be gotten out of the way, and these embarrassments lie, in my opinion, in the relation of the Government itself to the business of the community as represented in the banking system.

This bill, if I may anticipate what I may say later, especially provides that, and by an easy method, without expense to the people, cuts out as far as possible these artificialities which hinder and obstruct any possible uniform national system of banking and currency. What are those artificialities? The artificialities that I speak of not only impair the general structure of banking and currency, but they also embarrass or are likely to embarrass the Government itself. They were born in the civil war. Of what do they

consist? First, the legal-tender note—the greenback. If it were necessary to issue them in the beginning, they should long ago have been retired. They were false to the economic requirements of a true currency. Legally equal to gold as a cash reserve for banks, we witness the anomaly of a debt obligation issued by the Government made the legal basis for debt obligations issued by banks to an amount four times as great. They thus weaken the foundation of metallic money, on which the fabric of our whole credit system must finally rest. It is perceived that noninterest notes payable on demand are an immediate economy over time obligations charged with interest, and this benefit the people refuse to surrender. And of course we know that there is a sentiment attaching to the greenback—and the sentiment is a high sentiment, it is a good sentiment, it is a beautiful sentiment—but sentiment and business are not fellow-travelers. They go on different platforms. Not that business should fall below honorable and true sentiment at all, but justice and truth are the true basis of business—not poetry or philanthropy.

Now observe our system of bank notes. It is a device that we brought in at a time of distress to create an artificial market for United States bonds. Their issue, volume, and use bear no relation to the true law which should govern in the field where paper money performs its proper functions.

Now, the result is seen in two directions. In the first place, it has artificialized the price of Government bonds to an extent of at least 20 per cent, measured by the world's standard of value, as found in a free and open market where similar securities are bought and sold. As an incident to this artificialization the Government has become the guarantor of payment for some seven hundred millions of notes issued by more than 6,500 so-called national banks. This is a false relation in my opinion. It ought not to exist any more than the Government should guarantee insurance policies or the notes of customers that a bank has taken.

Further, by the drift of events, and through political pressure, there has been injected into the channels of our circulation some six hundred millions of silver now possessed of its natural commercial value, measured by gold, of about three hundred millions, but maintained at parity with gold through the Government's pledge to maintain such a parity balance. Looked at from the Government's side we have here a direct or contingent liability consisting of United States notes, $346,000,000 silver currency, parity $300,000,000, national bank notes, $700,000,000. Of course this liability is not menacing or embarrassing to the Government at the present moment of time, and is not likely to become so, provided we can continuously avert foreign or domestic wars, and provided, further, that the channels of trade where money circulates, can be to a large degree monopolized by the greenbacks and by silver, or silver certificates. In such a case the Government may not at any early period experience any particular embarrassment, but consideration ought to be had to this, viz, we recognize that a strong metallic chest and an unimpeachable credit in the Government is as essential to success in war as is our Army and Navy.

To the support of the Army and Navy, with but little grumbling, we contribute substantially a hundred million dollars a year for each, but for the economizing of a few millions we fail or refuse to put

ourselves in the strong position of financial defense from a Government point of view and drift along in a position which it must be confessed is, and everywhere else in the world is, charged as being a weak and inexcusable position. It is, however, to the reflex effect upon our general banking and currency system that I especially direct your thought. I have said that the path to a more perfect condition in banking and currency is blocked by the artificialities developed by our financial legislation.

Now, there would be no proper cause for complaint about it being blocked if as in the minds of many people it is conceived to be—that the business of banking goes on by the grace of the privilege granted by the Government to certain favorite persons, who exercise the function of banker to exploit the people. If that were the case, the more obstacles, restrictions, and repression the better. When a correct understanding takes the place of these misapprehensions, then it will be perceived that what hinders, restricts, or prevents the just, economic exercise of the banking functions interferes to embarrass an agency which, next below production and transportation in importance, is a minister to that industrial life wherein our material prosperity must be found. Now, in every other relationship existing between men, we know that there are natural laws which spring up by virtue of that relationship. They have to be discovered and recognized, and if obeyed they bring in peace and happiness. It is just as true that in the field of economics and in the field of banking and currency and in finance generally there is a law of relationship which, if observed, will bring in the highest utility and usefulness and prosperity, but which, if violated, as in the law of personal relationships between men, brings in disharmony, confusion, and ultimate disaster.

Now, our history for the last forty years suggests—in fact, it demonstrates in the most emphatic way—that our banking and currency system has at some point at least been out of harmony with the true laws which should govern it.

I am speaking too long upon that subject.

The CHAIRMAN. No; it is the sense of this committee that you proceed until you finish.

Mr. GAGE. Now, the national banking act has operated, in my opinion, to create an extraordinary innovation in bank credits, to induce the banking function to depart very widely from its natural use, which is to minister in the field of industry, production, and exchange, and has built up an enormous fabric of bank credits, represented on the books of the banks chiefly in large cities, an artificiality, and on this great artificiality of banking now rests the immense burden of securities, fixed in form, payable at remote periods of time, that have no relationship whatever directly to productive industry or exchange. How does it do this? I think it is plain. The bank notes are issued to a bank. It gets them into the field of circulation in any way it can, and there is taken out of the field of circulation reserve money in its place, and this reserve money goes into the vaults of the bank and furnishes a basis on which is built up an artificial structure devoted to stocks, bonds, and securities, to which I have just referred.

You know that a bank can carry credit in the centers, the reserve cities; it can carry liabilities to four times the amount of its reserve

money, and you know, I think, without my describing it too minutely, that deposits and loans are almost corollaries of each other to a large extent; that is, a credit made on the books of a bank in the field where bank credit circulates by checks and drafts can be swelled up in volume with reserve money one-quarter as large, because that credit, so called, will be circulated from one to the other in the field of operation to which the credit relates—and now I am speaking broadly about the field of bonds, securities, and stocks, and that sort of thing. There is no difference in the power of currency to inflate credit. There is no difference in the power between notes secured by bonds and notes not secured, except the assets of the bank. They are the same in their nature.

Not only have the notes thus issued by the Government been used to take reserve money out from the field of circulation—I mean the active field where people pass money to and fro—but they have been taken over bodily to a large extent by banking institutions that are not under the national law and counted by them as though they were legal reserve money. There is nothing to hinder them from doing it, and they argue in a manner to justify this. They say these notes issued by the banks are better than greenbacks. They are secured by obligations that draw interest anyhow, and the greenbacks are not. They are secured by the assets of the bank in addition. The greenback is not. They are secured by the Government guaranty of payment and by a 5 per cent redemption fund held by the Government, and so directly, not indirectly, but directly, by counting these notes as legal money, the State institutions take them and use them and inflate book credit, and we entertain the delusion that is very popular that we are a very rich people because the people have got thirteen thousand millions of money in the banks. That is folly. They have thirteen thousand millions of credit there, and against those credits the banks hold against the people obligations that they can compel them to pay for about thirteen thousand millions, and when all these debts are settled the whole business disappears. So we have not got thirteen thousand millions of money in the banks.

If what I have so far stated has been a fair and true explanation as to the situation, what are you going to do about it? Let it drift? We have drifted over the rocks several times. We drifted over them in 1873 and struck the rocks pretty hard. We drifted over them in 1890 and got a slight shock. In 1893, from entirely other causes, our financial ship bumped very badly. In 1907 we were on the deep waters of prosperity, where everything ought to have floated serenely, but we bumped hard. We stove open the bottom of the ship. We met with first-class disaster. Are we going to keep drifting, or are we going to do something? Shall what we do be comprehensive, or shall it be a mere makeshift? Shall the artificialities that have gone on for forty years be replaced by some other artificiality, or shall we consider and see if we can not in some way establish foundations harmonious and consistent with the true laws that govern the whole subject?

There are two measures that are proposed to Congress now. There may be others that I have not heard of. The one is the Senate bill introduced by Mr. Aldrich; the other is the House bill, which I hold in my hand, introduced by the chairman and referred to you. Both bills, I think, are now before the committee, are they not?

The CHAIRMAN. No; the Senate bill has not come over to us.

Mr. GAGE. The Aldrich bill, I think will be clear enough from what I have said, I have no sympathy with at all. I do not think it is curative. I do not think it is curative of our evils. At best it is a patch or a panacea, if it even be a panacea, which once in ten years may be availed of when the country is in a condition of intense panic, and when many of the evils of the panic are developing and existing, and it may not be effective then. In the meantime, if adopted, it probably puts us to sleep. It is a gentle narcotic that woos the community into a false repose, I think, from which we will suffer many a nightmare, from which we will awaken at last in trouble and real agony.

Now, in contradistinction to that measure, there is this bill, which, as I said a little while ago, reaches to the foundation of things and it eliminates two of the artificialities which I referred to as blocking the road to reform. It eliminates gradually, or at an early period of time, the legal-tender notes without expense to the Government, through a tax upon circulation—but you are all familiar with the bill and I shall not particularize much about it. It forms a fund which will be applied without cost to the Government, to convert those $346,000,000 of greenbacks against which $150,000,000 of gold now rests, into gold certificates, and especially it operates to put in the foundation of our bank credit the only foundation that can properly be used there under our present standard, viz, gold. It eliminates and takes out of existence the present national bank note currency. It operates, if it is to become a law, to impound the present United States 2 per cent bonds, amounting to about $700,000,000, in such a way that they would never be competitive with a new Government loan in the case of a foreign or domestic war.

Thus the Government would face a situation then, with this law operating and established essentially and radically different from what it occupies now, manifestly stronger. It would have no complications by reason of a demand debt of $346,000,000, and it would withdraw it entirely as a guarantor—as a guarantor of bank notes. Therefore it would manifestly strengthen the Government and eliminate it as an obstacle from the free operation of the banking and currency principle which is sought to be established by this bill.

It does more. The measure operates to coordinate the banks of this country and take away that tendency in a time of strain to repel each other, each one grabbing for its own life, for, if you remember, the bill divides the country into twenty districts, and it affiliates those banks in a way together by making each one of them redeem its own circulating notes at a given convenient city. It establishes a government over these local institutions by a body elected by themselves, consisting undoubtedly of the men of intelligence, power, and strength in the respective banking districts. It causes them to appoint a man, well paid, selected with reference to his endowment, whose business it will be to examine and inspect and report to the local government of that district the conditions and methods of business, the personal characteristics and qualifications of those who administer in that important field. It puts upon the banks of this district a penalty for a lack of fidelity and faithfulness in doing its work, because it requires that particular district to furnish 20 per cent of the loss occasioned to depositors or note holders by any bank in the district.

The CHAIRMAN. Ten per cent.

Mr. GAGE. Ten per cent. I always think of this as 20 per cent, because I think it should be 20. It puts them under a penalty of 10 per cent for default to the creditors of any one of their number, and makes them share alike with all the rest of the banks in the country for the difference of 80 per cent. These representatives of these districts, 20 or 10—and I am going to say 20, you can call it 10 if you want to—meet together under the terms of the bill from various parts of the country twice a year——

The CHAIRMAN. It ought to be four times.

Mr. GAGE. Well, they meet occasionally at stated periods. These agents who are the administrative officers of these centers are supposed to have imparted to them the powers that exist in a deputy controller. Under the jurisdiction of the controller himself these representatives are acquainted thoroughly with the methods and administrations of these various districts and the working of the machinery of the banking meet together and compare notes. Would not it be a most useful source from which to derive accurate knowledge and get information as to what was required in the way of reform and improvement of this method, that method, or the other method in different districts of the country? It certainly would.

The stumbling-block in the bill to most everybody, at first blush, is the guaranty of deposits. It stumbled me. I fell right down over that. I said never, never; no, that won't do. You are not going to make a black man as good as a white man by just washing him. But I reflected on this. I studied this bill, and I am persuaded that it is just, equitable, wise, and right that the creditors of the banks which come under the provisions of this bill will have their deposits guaranteed to them as will be the bank's circulating notes held by the general public. The nature of the obligation from the bank is exactly the same in principle whether evidenced by a pass book or by the bank's notes in the form of circulating money; there is no difference in the principle. It may be urged that the man depositing had the right of selection, and he acted upon his own volition, but when he took the note he was under coercion. There is a certain plausibility in the argument, but where there is only one or two banks, or only three banks, there is not much right of choice when a man is under coercion of a business necessity.

The provision for the redemption of notes under this bill seems to me to be scientific, complete, and effective in that it provides out of a general fund the expenses incidental to sending the notes from the place where they may be held to the place of redemption, and if you were a banker you would understand how restraining it is to pay 50 cents or 75 cents or $1 express charges on the money that you want to have redeemed. Some pressure must come before they will do it. The bill puts the cost upon the issuing bank of express charges if it gets its notes out to distant points.

It forbids under heavy penalty the counting of a dollar of credit notes to be issued under this bill as a part of a bank's reserves.

And it does another very important thing, in my estimation. It will draw into the banks some five or six hundred millions of dollars of reserve money to strengthen the volume of liabilities that now exist in the banks of the country as a whole—State and national—without giving any additional power to expand. And when you

think of the many banks in this country operating with reserves of 6 or 7 per cent only, you see how weak the foundation of the great credit structure is on which we are resting.

Now, I have told you a little story of my experience and how I came to look at things this way. I think that the gentlemen who will follow me will give you some scientific reasons upon the subject that I have not indulged in.

But if I were in a bank, clothed with the responsibility, which, thank God, I am now free from—for it is a great responsibility to a man who appreciates it and carries it—if I had the responsibility upon me, and haunted by the fear, as I always have been haunted, that by some concatenation of circumstances I might go to ruin and default, by so much destroying the general welfare and causing loss to my depositors, if I desired as I should to promote conservatism in the methods of banking, if I wanted to bring them back to the exercise of their natural function, viz., to the exchange of its credit, I would, as a banker, ask to come under the provisions of this act and I would look with dread and apprehension if the bill offered in the Senate should become a law, for if adopted the curative work which can now be accomplished, or at any rate undertaken, under this bill would not be possible.

Now, it seems to me that this is the critical hour. As I said in the beginning, I believe we have approached in our industrial and commercial life a crisis—a crisis in our legislative function in its relation to banking and currency. We are not in a political panic, and we do not want to get into any. We want to look at the thing from the fundamental principles and the law of true economics, and to be governed by wisdom and without prejudice, and to do our duty as we are able to see our duty.

Now, I have talked too much, and if you want to ask me any questions, go ahead.

Mr. Weeks. I would like to ask a question. If you were president of the First National Bank of Chicago, and the Aldrich bill passes, would you buy bonds with the possibility that you might want to use them, or would you wait until the time came and then depend on purchasing them?

Mr. Gage. In the case of the First National Bank of Chicago I should not buy any, because they have got too many now. They have got an overstock. If I were in a country bank—if I may step aside from the particular case of the First National Bank—if I were in a country bank where I stood pretty close to the producers, where the goods of commerce originated, small factories, and where capital is scarce, and where my function as a banker was necessary to the welfare, industry, and happiness of that locality, I would take my chances on going broke before I would take $100,000, if you please, if that was my proportion of this supposed relief, and tie it up in bonds, thus leaving my constituents without the facilities I can now furnish them and so taking from them the use of my banking power for an indefinite period of time.

Mr. Weeks. This is a pretty practical proposition. The people of this country are satisfied that the circulation now existing is good. Do you think it would be judicious for Congress to pass the Fowler bill substantially as it is in its entirety and practically change our circulating medium at one jump?

Mr. GAGE. Yes. I think the people would look upon $700,000,000 of bonds, if that is the way it figures up, as security for note redemption guaranty, and for deposits, with perfect complacency. They would be very unreasonable if they did not.

Mr. WALDO. If the Fowler bill were passed according to its present terms, it would, in effect, do away with all other banks, wouldn't it?

Mr. GAGE. It would be its hope that it would.

Mr. WALDO. Granting the right to administer trusts and to accept savings deposits, and so on

Mr. GAGE. It would, as drawn, yes.

Mr. WALDO. It would do away with State banks and State institutions?

Mr. GAGE. Yes. I confess when I come to the savings-bank feature I have a little of what you might call the staggers, because I do not think that anybody ought to take the savings of the poor for profit. That fund which constitutes the savings of the industrial classes, the benefit of it ought all to go to them as it does under the system of New York State, and I think New Jersey——

The CHAIRMAN. Nothing in New Jersey to speak of. There are only a few banks there.

Mr. GAGE. Therefore I think it would be a happy circumstance if the New York savings banks will all go on uninterrupted and not be impinged upon by anything else, because I think it is most equitable to the depositors and is safe and for the interests of the poor—I mean the employed classes—as safe as any that could be inaugurated. But outside of New York City (where that fund is vast) it might be inaugurated, as in this bill it is provided, without particular prejudice.

Mr. WALDO. The only question with me, Mr. Gage, is as to whether doing this through the complication of the savings and trust companies and national banks, wouldn't it tend to turn into permanent investment the business of the banks instead of having them attend strictly to commercial and industrial business? What do you think about that?

Mr. GAGE. I think not under the provisions of the bill, for it permits them to take money on short time—three months—that is, in the trust. I would like to say there that the banks are doing that same thing. I can not describe it to you exactly, but the First National Bank of Chicago, perceiving that they were threatened with ruin by the competition of the trust companies and savings companies—I mean ruin to the profits of their business—they said, we must have some power ourselves. And by an ingenious device or method they took $1,000,000 of their assets and divided them among their shareholders, and with that they incorporated under a law of the State a trust and savings bank. It is separate and distinct, but it is really managed by them, and the profits go to the bank. The trust savings company started with $1,000,000 capital, and it has doubled its capital, and it has $500,000 of surplus, and it has about $40,000,000 of liabilities. Othes banks are broadening upon that example, and it will be a common practice in the fullness of time.

But that is not the point that just occurred to me. We expect to get a coordination of all the banks under a guaranty of deposits. What does happen, and what will happen, probably more and more—it may not always happen—but a few months ago, perhaps two years ago, there was an institution in Chicago, the Chicago National Bank,

of which Mr. Walsh was president. It had been in business many years. The agency of the Government had been looking at stated periods into its assets, and for a long time he had been violating every law pretty nearly, and Mr. Walsh had been advised by letters written to him, which he had respectfully answered and had gone on just the same. But a crisis was finally reached when it came to the knowledge of the Chicago banks and the Clearing House Association, of which he was a member, that Walsh's affairs were terribly mixed up, and he was in a "bad way."

I think it crept out from the Comptroller's office, or he felt a little weak and sent somebody to take hold of it, and the clearing-house committee of a Saturday night went over and demanded of Walsh a look at his assets, a demand he could hardly resist, since the Comptroller's authority was on top if he did not respond. They examined them and they found this situation: He owed $27,000,000. He had the highest credit. He had city and county funds, park funds, State funds, and other funds, and the more intelligent of the bankers who looked over the assets hurriedly knew that there would probably be a loss if they took over his assets and assumed his liabilities, but they thought it would not do to allow that bank, in the fair, open sunlight of day, going on and doing business and accumulating these large liabilities under the auspices of the Government, to fall down and fail to pay and thus make an explosion in the financial world; so with the advice of some of the best business men in Chicago, among them Marshall Field, having got from the directors all the pledges they could get from them and the turning over of all the collateral from the directors they could get them to turn over, they took over from the bank the whole "caboodle" of assets and assumed and paid with no delay the liabilities of the Chicago National Bank.

They did that under the worst kind of circumstances, viz, where there had been years and years of business which they had no ability to ascertain or find out about, they thought it was for their interests of guarantee the deposits of John Walsh, with the absolute certainty to loss, and if you want to buy the claims of some of those banks at a considerable discount I will agree to negotiate them for you. Well, they learned a lesson, and they adopted another principle, a principle provided for in this bill. By the vote and the voluntary compliance by all the members of the Clearing House Association, they authorized the clearing house at any time and at stated periods to act upon its own volition and on its own account and for the information of the clearing-house committee itself to have a full, complete, and comprehensive investigation of each member of the association, and not only of each member but of every institution that carries the name of bank over it that is cleared or represented in the clearing house by a clearing-house bank, and I can tell you as a safe prophecy that we are at the end of disastrous failures in the city of Chicago by clearing-house banks since this régime has come in. I am told that Kansas City has the same thing. And other cities will eventually adopt it.

The CHAIRMAN. And at St. Louis.

Mr. GAGE. Now, they are doing as Saint Paul says, without the knowledge of the law as it is required by the law; they are under grace, or something like that. But the law ought not to create so *very much*. It ought to discover and recognize and sanction. Men

who have lived in a free state for a long time work out those rules and plans of action between themselves which are perhaps on the whole the best for them. These when just should be sanctioned by the law and made universal.

But what I have just referred to as the Chicago National Bank is not extreme. They hung a man in Baltimore many years ago. He was a banker and failed, and they hung him to a lamp-post, and I don't think there has been any bank failures in Baltimore since. They cooperate and talk each other over and see to each other before they fail. Under this bill they will see to each other before they fail.

Mr. WEEKS. Don't you think that it is the fault of the Government that the condition existed that did exist in the Chicago National Bank?

Mr. GAGE. Why, yes, you might say so, but the Government is impersonal and its agencies are perfunctory; they are human and the law is not very thorough. The Comptroller can under the law, I believe, have a national bank go under a receiver provided that they fail to pay one of their circulating notes and it goes to protest. I think if a bank goes under its reserve for thirty days and fails to make good, after being notified by the Comptroller, if I remember right—I am a little rusty—an application might be made for a receiver. He can ruin any bank if he has a mind to, by having his examiner take possession of it, but I do not know of any law for it.

The CHAIRMAN. With reference to Mr. Walsh's banking connections in Chicago, is it not true that he had under his administration two other banks than the Chicago National, and it was through the manipulation of the assets of those banks that he was able to borrow—how much from the three banks?

Mr. GAGE. I think about five or six millions. He had an institution incorporated under the law, with a beautiful name, the Equitable, a fine name—the Equitable Trust Company—and in that he gathered money which the Chicago National Bank knew how to use, or rather, Mr. Walsh, in constructing certain railroads. He had another institution to gather money, called the Home Savings Bank, I think, and what they gathered in were contributing elements of strength likewise to the Chicago National Bank.

Mr. WALDO. There is another question I would like to ask, and that is, whether the gold reserve of any bank ought not to be kept in the vault of the bank instead of being deposited in some other bank, where a part of it may be loaned under the present law, and I think under this bill.

Mr. GAGE. This bill strengthens that in the manner that I speak of, and I would answer your question that we allow too much of the reservation to lie at rest in the hands of some other bank; but a portion of the reserve might thus lie in a system that was well established and perfected.

Mr. WALDO. And it is true, isn't it, under the present law, that the money that is deposited in central reserve cities can be loaned up to 75 per cent?

Mr. GAGE Yes.

Mr. WALDO. So that when the reserve is not with the bank that owns it, there is but 25 per cent that is in actual existence?

Mr. GAGE. That is right, and that is what causes, with the annual returning crop movement, a crisis and a threatened panic in Wall street year after year—that, and because there is no system of credit

currency which is held in reserve from which to distribute the credit in whatever manner it should be distributed.

Mr. WALDO. The amount of reserve that is held in New York City at the only times when it is needed in the country is small—between two and three hundred millions.

Mr. GAGE. More than that; between three and four.

Mr. WALDO. So that in the fall, when that is needed by the country, saying it is four hundred millions, there is only actually in existence in New York one hundred millions out of the four hundred?

Mr. GAGE. That forms the reserve for that four hundred; yes.

Mr. WALDO. So that the banks of the country that are supposed to have four hundred millions of reserve as a matter of fact only have one hundred millions in actual existence.

Mr. GILLESPIE. I understand that you consider one of the virtues of the Fowler bill—that is, it requires the banks to carry a gold reserve?

Mr. GAGE. Yes.

Mr. GILLESPIE. But the bill says that it may be carried in gold or its equivalent.

Mr. GAGE. Yes.

Mr. GILLESPIE. How would you interpret "its equivalent?"

Mr. GAGE. I would interpret the "equivalent" at the present as legal-tender notes. I would interpret as another equivalent silver certificates. The silver certificate we have with us—and we can not run away from that—it is a pity; it is a pity because when the country is strong in metallic money we not only have the bulk of the resources of the banks, but they will have distributed in active circulation through the people a considerable volume of gold or other standard money which, when the time of liquidation comes and the outward movement sets in, may to a degree be drawn and some substitute made in place thereof to the great benefit of the country and the Government.

Now, six hundred millions is a pretty large volume when it is in silver certificates. It is in the hands of the people largely, and as long as it circulates there it will not endanger the Government guaranty for a parity. You have got to have a guard for it, and so far the field of circulation has been given the preference to silver certificates in the case of one and two and possibly five dollar notes, so that money absolutely in men's pockets will absorb substantially the silver certificates, and then they will not be in the bank reserves.

Mr. GILLESPIE. Under that construction of those words it would also practically cover every form of currency that we have. Our bank notes are indirectly convertible into gold. We can take them and get the gold on them. If you are going to allow the banks to keep gold or its equivalent, and if you interpret the present kinds of currency in existence the equivalent of the gold dollar, wouldn't a bank be authorized to keep any of the present form of currency in its reserve as well as gold?

Mr. GAGE. That could be best answered by the language of the bill itself.

Mr. GILLESPIE. It is in just these words, "gold or its equivalent," all the way through.

Mr. HAYES. Mr. Gillespie's point is that bank notes secured by bonds as at present rest ultimately upon the Treasury of the United States for redemption.

Mr. WALDO. Another point: This bill provides that this board of managers in the respective redemption districts, except savings banks and trust companies, may fix the rate of interest that these institutions shall charge and destroy competition between them. Now, do you think that is a wise provision, just that feature—that this board should have the right to fix the rate of interest?

Mr. GAGE. I think it is a wise provision and a necessary one; yes.

Mr. WALDO. It would destroy competition between these institutions.

Mr. GAGE. In that form, yes.

Mr. WALDO. That would leave loans to be placed whether they were good or not, instead of upon how much bonus or interest they would pay?

Mr. GAGE. Yes.

Mr. WALDO. It would be an element to do away with bad loans?

Mr. GAGE. I think so.

The CHAIRMAN. There is one more question that I would like to ask, Mr. Gage. Do you think that this guaranteeing of deposits would lead to unsound banking?

Mr. GAGE. No, sir. I think the fact that under your bill there would be a penalty for neglect of inspection, and that there would be the machinery for inspection, would lead to sound banking. The only restraint upon the bank officer really is the fear of loss, not to his depositors, but to his stockholders. That fear and restraint would be as operative under your bill as it is now, and the influence of the inspections and the restrictions that would be formulated by these associates who have to bear part of the risk that that man takes if he goes wrong is a pretty good insurance that he will go right, and if he goes right he will go in conformity with the principles of good banking instead of going loose like a wild horse on the prairie.

Mr. CRAWFORD. What do you say produced this panic?

Mr. GAGE. It would take about five minutes to tell you that.

Mr. CRAWFORD. Take the time.

Mr. GAGE. This, I think, is the true story of it. I spoke a little while ago about the ability of the banks with the present system of currency, with national bank notes to aid them, to get in reserve money and expand their loans and discounts on that basis. This went on, and the loans were based not on commercial assets nor put out in the interests of industry or commerce; they were put out to carry fixed forms of securities either in the form of stocks or long-time bonds, and the percentage of loans on these kinds of securities last named, the percentage in proportion, has constantly grown. I hope some of the gentlemen who succeed me will give the figures. Now, the banks in New York and the great centers had the theory that they were the best securities in the world for a bank to loan upon.

If they had margin enough upon these securities, it did not make much difference about the quality of the borrower, as they could at any time take those securities in the market in the stock exchange and sell them and realize the money on them. They forgot that the banks had all the money all the time, and that there never was any stock of money to be got from the street; they forgot that when everybody are sellers under the necessity of contraction there can be no buyers. They forgot that in undertaking to realize upon this

class of securities beyond a certain point they would simply ruin the quality of the collaterals which remained behind that they could not market, and they had to draw a line where they had to stop and rest.

That was the situation that was found in the close of the year 1907, viz, extended loans, narrow resources, and a great volume of long-time obligations, which ordinarily would be taken over by the investor, who is the man that ought to have them, for he is the man who has the funds to invest in long-time securities, not the man or the institution that owes money on demand. Anticipating the future and encouraged by the fluency and activity of things, the banks took on as intermediaries between the purchasers of these securities, the investors in these securities, an enormous quantity of these stocks and bonds, which they held in the faith that they would run off on the other side into the investors' hands, and the value would be recovered in the bank, and fresh securities of a similar kind taken on.

Now, as in every fall, the crop movement came, the best we ever had in many respects, and the banks in New York, as my friend over here said, owed between three and four hundred millions of dollars to the interior banks, and the necessities of the occasion compelled the banks in the interior to make their natural and just requests upon the central banks for something to "move the crops." Of course, in the absence of any currency system of the credit kind the banks had no power to help themselves by issuing their notes—I mean the banks outlying all over the country—neither had the New York banks any power to convert their obligations, as evidenced by their books, into note obligations which they might send out, and which, if used, would answer the purpose perfectly well. No; they were obliged to take the cash reserve money on which the local credit structure four times as high rested. Every dollar pulled from the reserve to furnish this temporary use in the country helped to pull the foundation out from under the structure.

Now, there were other elements of destruction. I will not enumerate them. There had been many loud voices of denunciation from many quarters, and they had scared the investor. He did not want to buy at that time, and the banks, moved by a natural instinct to strengthen their position for the outward movement, called upon their borrowers, carrying these securities for payment, and these borrowers tried to pay, they tried to pay by selling their securities, but the investor was not there, he was afraid. Other banks were not in any better position because they were all in the same position, substantially, in relation to the country.

The downward decline of these securities under this pressure in the stock market is well known. The banks in the country had also learned that on three separate occasions their balances in New York had suddenly been tied up, and when they telegraphed for money that was due them they got wires back saying, "We are not sending currency." They had been embarrassed and choked and garroted on three or four occasions in previous times. They learned something by experience, undoubtedly—human nature will.

There was a crisis, and the banks of the country did not wish to be again surprised, and they telegraphed to the New York banks for money that they did not need, anticipating if they did not get it then they might not get it at all; that aggravated the situation, and the next time it will be worse than it is now. They have learned

the lesson more deeply and better. Then was witnessed also the troubles of the Knickerbocker Trust Company, which I know had been looked upon with distrust by the city financial institutions in New York, but they had not power to do anything; they had no personal knowledge, only instinct, but with a certain belief in their minds that if a crisis ever came the Knickerbocker would be a complicating factor in the situation.

I was told two years ago by men who knew in a general way about it, but they had no power, they could not slander their neighbors, they could not use what they knew intuitively, with no evidence. The Knickerbocker, with 5 or 6 per cent of resources, waved the flag of distress, and what was a crisis and a developing crisis scared the savings banks. The savings banks have a natural pride in meeting the requests of what they call their customers and they undoubtedly drew large amounts of money which they usually kept on deposit with New York banks into their own coffers. How much I do not know. It would be interesting if somebody did know. That and the newspapers and the action of the banks in the country scared the banks and put them to considering the necessity of protecting themselves, as they had before, by shutting down and refusing payment, and that was a panic. Then it was a panic.

Well, what did they accomplish by the clearing-house certificates? They do provide means for liquidation to each other, and thus pass the burdens back and forth according to their respective strength as developed in the clearing house. By shutting down and refusing to pay, but compelling liquidation to them from those who owed them, merchants and manufacturers against whom they held a claim, they strengthened themselves, canceled the clearing-house certificates and resumed. I think that is a fair sketch of the causes of the panic.

Mr. WALDO. I move that a vote of thanks by the committee be tendered Mr. Gage.

Motion seconded and carried unanimously by a rising vote.

(Thereupon the committee took a recess until 2.30 o'clock p. m.)

HEARING ON H. R. 12677

THE FOWLER BILL

STATEMENT OF

MR. CHARLES A. CONANT

OF NEW YORK CITY

COMMITTEE ON BANKING AND CURRENCY
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 19, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
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COMMITTEE ON BANKING AND CURRENCY,
February 19, 1908.

AFTERNOON SESSION.

The committee met, pursuant to adjournment, at 2.30 o'clock p. m., Hon. Charles N. Fowler (chairman) in the chair.

The CHAIRMAN. The committee will please come to order. We have Mr. Conant before us this afternoon. Mr. Conant desires, as Mr. Gage did, to proceed uninterruptedly until he finishes his statement, at which time he would be very glad to have anybody ask him questions who desires to.

STATEMENT OF MR. CHARLES A. CONANT.

Mr. CONANT. Mr. Chairman and gentlemen of the committee, I desire to approach the problem from a somewhat different side from that presented so luminously and eloquently by Mr. Gage. I feel that the problem is something more than a currency problem. I have always been a pronounced advocate of a change in our bank-note system which would give it greater flexibility and greater adaptation to business conditions. I have not in any way modified my conviction that those changes are essential, and those changes I believe this bill of Mr. Fowler's accomplishes in a satisfactory way. But beyond that there are certain changes in our banking methods which should be made which are difficult to attain by legislation, but which I believe this bill does go a very long ways toward attaining. The distinguished author of the bill which is pending in another branch, which I believe it is not permissible to name here, has himself outlined some of these requirements. He says in a paragraph of his speech purporting to have been made in this other body:

> A general demand for a reform in banking methods is quite as insistent in the public mind as that for a modification of our monetary system. The great mass of the men who control the national banks of the country are strong and liberal minded. Their influence and that of the institutions they represent has been helpful in the great work of national development. But these men, intrusted with the management of great financial institutions, which can do so much to make or to mar the prosperity of our country, should realize that they have serious responsibilities with reference to existing conditions and the necessity for reform in banking methods.

In another place he says:

> We should constantly bear in mind the danger of unrestricted expansion. It leads to inflation, and inflation must end ultimately in disaster.

And still again he says:

> There is another disquieting element of quite as serious a nature. It is the discovery that many national banks have been directly or indirectly furnishing capital for speculative ventures. Some of them have been largely engaged in promoting or underwriting questionable business schemes. All of these operations are clearly outside of the scope of legitimate banking and serve to bring discredit upon all of our banking institutions.

Now, it is the great merit of the bill pending here that it does automatically, as it were, and through the great motive of self-interest

operating upon the minds of men in business affairs, correct many of these evils, or, rather, instead of correcting them after they have occurred, anticipates and prevents them before they occur; and I regret that the gentleman who made these remarks did not incorporate in his bill some provisions which would tend to accomplish these results. The evils to which he refers are not limited to the national banking system. On the contrary, they are perhaps more extensive in other parts of the banking system of our country, if it can be called a system; or, rather, they are more conspicuous in the polyglot and varied systems which mark the banking organizations of the different States, and the time has come, I think, when this committee and Congress should take cognizance of the fact that the banking system of the Union should be a coherent whole; that it is not possible to shoulder upon the national banks the position of the reserve banks of the country when they have no control—and Federal law exercises no control—over a multiplicity of other institutions, the burden of whose responsibilities falls ultimately upon the national banking system. Our whole system as at present organized, or, rather, as at present existing—I can hardly call it organized, but as at present constituted—is incoherent, disjointed, and as the previous speaker has so eloquently said, its units tend to become repellent, to become hostile one to another, when a great crisis occurs; and it is the great merit of this bill pending before you that it meets many of these difficulties in an efficient, scientific, and natural manner.

The side from which I desire to approach this problem is the side which was briefly touched upon by the previous speaker in answer to a question as to what were the causes of the recent crisis and panic. He correctly said that the cause lay in the tremendous expansion of loans upon securities. Loans upon securities, in my opinion, when they are carried beyond a reasonable limit, are a serious source of weakness in any banking system. A great English writer on banking said that it was easy enough to conduct the business of banking if you could distinguish between a bill of exchange and a mortgage. Unfortunately, in our recent banking we have failed to make that distinction, and we have failed to make it because of the deceptive character of negotiable securities. The national banking law, I think, specifically prohibits loans upon mortgages, but these great loans on negotiable securities have substantially the character of a mortgage. At first sight that proposition may seem difficult to grasp, but if you think for a moment of the character of negotiable securities, you will see that it is sometimes that of a mortgage and sometimes much worse than that of a mortgage. A bond is in a sense a mortgage; in fact, it is usually a mortgage. If it is a poor bond—a bond based upon collateral of doubtful character, or based upon any miscellaneous thing that you can never lay your hand upon in case of default, then it is not a mortgage, but something worse. The reason for the confusion on this question is that these mortgages are given a divisible and circulating form.

The difference between fixed capital and circulating capital is the essential difference between mortgages and commercial paper. The distinction is confused by the conversion of mortgages into divisible and easily transferable parts; but this does not change the nature of the security. Because you have taken a mortgage for $100,000,000 on a number of miles of trackage, and then split it up into parts and

thrown those parts on the market and made it easy to transfer them, it does not change the fact that the capital applied to such an investment is in a fixed form; that the capital which has been put into that railway property is invested in a way in which it can not be got out; that it is, in other words, a mortgage and nothing but a mortgage; that it is fixed capital and not circulating capital. And it is circulating capital which it is the legitimate business of banks of discount to deal with, which is the legitimate basis upon which to lend money which is repayable on demand to depositors.

To illustrate, it is the capital of the woolen manufacturer, who buys his wool and converts it into cloth and sells it to a jobber or retailer, from whom it goes to the consumer, and when the process is completed the money comes back through its various channels, the money is paid, and the notes are all taken up and the transaction is closed. If the demand for woolen cloths diminishes, then the production of wool diminishes and the production of cloth diminishes and the number of bills for discount based upon the transactions is diminished.

Not so with your fragments of mortgages which are called bonds, or your fragments of something else which are called stocks. They do not diminish in quantity naturally in time of crisis. They undergo no automatic diminution except under the pressure of a financial crisis producing bankruptcy and liquidation. Every banker in Europe recognizes that distinction—that the legitimate object of loans of deposits payable on demand is circulating capital—the processes of production of current products which go into consumption. They recognize as absolutely unsound loans upon mortgages or loans upon those divisible parts of mortgages which we call bonds, and those remote claims upon contingent earnings which we call stocks.

Now, this is a somewhat abstruse problem of political economy, and it is difficult to make it perfectly clear, always, to one who has not followed the unfortunate state of those banking institutions which have ventured to make loans upon bonds and stocks when they have held themselves ready to pay their depositors on demand. The people who can legitimately invest in those securities are private bankers who hold funds placed in their hands for such investment, and with the knowledge of the depositor that those funds are to be so invested. The banking institutions which, like the Knickerbocker Trust Company and some other companies in New York, have chosen to make loans on securities that were not readily marketable under the best conditions, are criminally negligent, and are guilty of a violation of sound banking principles. And as the previous speaker said, the reform of the currency will not entirely cure that. It will go some ways toward it, and will enable the bank to turn the corner after the liquidation has set in, and to avoid the shock and to avoid suspension of currency payments, a suspension that for a nation as rich and as powerful as ours is more disgraceful than is the suspension in some South American country upon the brink of civil war.

For the banks of this country to suspend currency payments is substantially the same thing as the banks in other countries have done when they have suspended the redemption of their notes in specie. When currency went to a premium of 3½ and 4 per cent, as the previous speaker well said, it was worse than the condition which occurred with the Bank of France in the period of her acutest agony. The suspen-

sion of currency payments by all the banks of the United States is a disgrace to our credit and our financial honor, which never could occur under a sound system. It is not, of course, the fault of the individual banker, but of the system, and we are here asking you to correct that system and establish a system which will save this great, powerful country from that infamy and put it upon a plane with every other great civilized state.

But I do not want to wander for the present from this question of negotiable securities. Wonderful as has been the benefit of this system in establishing limited companies, in issuing their securities and putting them upon the market, of drawing into the market the small savings of the people of the country in those investments, the expansion has been so rapid that it has outrun the experience of men in dealing with it. The statistics compiled in Europe and in this country show that from two to three billions of dollars' worth of new securities have been offered upon the market annually within each of the past few years. In the United States alone I found by recent inquiry that the securities which I could ascertain were in existence had a par value of about $34,000,000,000. Think of it, $34,000,000,000! Our whole national wealth, according to the census of 1904, is only $107,000,000,000. Almost one-third of that is in negotiable securities. Of course reductions should be made for securities of one corporation held by another corporation, because that is in a sense reduplication, doubling of the obligation upon the same property; but even making those deductions so far as the data at my command were available, amounting to about $10,000,000,000, we still had left in outstanding securities in 1905 about $24,400,000,000 worth of stocks and bonds at their par value, and their par value, it so happened, at that time did not differ very widely from their market value on the average. Of course many were below par, but others were above par, so that the average market value did not differ widely from the par value on the 30th of June, 1905, the date for which these statistics were made up. I hardly need to say that there has been a very considerable fall since, a fall computed by one of the New York journals as high as $5,000,000,000—five thousand millions—and that in a sense is the price we pay for unsound banking methods, a defective currency system. That terrific shrinkage of five thousand millions of dollars came on those securities because we had loaned too much on this class of security and because we had no adequate currency system to even break the force of the descent.

Now, when a bank ties up its deposits payable on demand in that form of security, it takes a very large risk. Of course the big New York trust companies, and many other trust companies throughout the country, have been able to protect themselves against that risk, so far as they individually were concerned, by looking ahead, by anticipating this crash, by calling upon the people to whom they had made loans either to increase their margins or to increase thier deposits of securities or to withdraw their securities. All through the year 1907, and perhaps for some months before, farsighted bankers were going through their collateral and weeding out industrials and other securities which they considered might decline sharply in case of a crash in the market, and that they did wisely as prudent bankers was shown by the result. They did the only thing they could do for the protection of the interests of their depositors and share-

holders; but in doing that they were simply protecting themselves at the expense of others. As the previous speaker so well pointed out, when the time came that these calls were made either to increase margins or to increase collateral—to increase securities or to pay up their loans and withdraw their securities—the means were not found for doing that by the people who had received those loans except by frightful sacrifices of securities. They said, "We can not do it, we can not deposit further margins, or we can not deposit more collateral, and we can not take out what we have," and those securities were thrown on the market and sold for what they would bring. The sacrifices were terrible, and that is what brought on, first "the silent panic" of March 14, and then a repetition of the steady downward fall of those securities in August, and finally the confession that there were a few banks and trust companies, even, which could not stand the strain which had been imposed with such severity upon their various clients.

The fundamental defect in those loans is, as I have already indicated, that they are mortgages and not circulating capital. Then there is the further fact, in addition to that, that these State institutions, trust companies, and State banks are under no control whatever of the Federal law, except in the prohibition to issue notes, not even to keep adequate reserves. I want here to put into the record of the committee some statistics bearing upon that point, and I will briefly sum up a few of them.

Growth in State banking, 1898–1907.

Item.	State banks.		Trust companies.	
	1898.	1907.	1898.	1907.
Number	3,965	9,967	246	794
Total assets	$1,356,084,800	$4,119,190,337	$942,462,179	$3,071,419,360
Individual deposits	912,365,406	3,068,649,860	662,138,397	2,061,623,035
Cash on hand	133,877,133	254,001,570	22,250,862	101,719,515
Loans on real estate	76,064,610	192,737,361	92,175,473	174,235,578
Loans on other collateral security	116,464,999	171,112,891	303,790,563	823,109,861
Stocks and bonds	131,685,788	489,504,637	193,977,752	785,999,670
Other loans and discounts	621,220,194	2,139,836,544	143,196,409	604,018,708

SUMMARY.

Total deposits:		
1898	$1,574,500,000	
1907	5,130,300,000	
Increase	3,555,800,000	
Total cash:		
1898	160,000,000	
1907	356,000,000	
Increase	196,000,000	
Total loans not commercial:		
1898	588,500,000	
1907	1,361,000,000	
Increase	772,500,000	
Total bond and stock investments:		
1898	325,500,000	
1907	1,275,500,000	
Increase	950,000,000	
Total resources:		
National banks (May 20, 1907)		$8,476,501,434
All other banking institutions (June 30, 1907)		11,168,514,516

These statistics not only show a reduction of the reserves, but an amazing expansion of this form of banking within the past nine years. I took the figures for 1898 and 1907 for State banks and trust companies as reported by the Comptroller. The assets of the State banks expanded from $1,300,000,000 to $4,000,000,000, and of the trust companies from $942,000,000 to $3,000,000,000. Now, it is obvious that that expansion of liabilities called for an increase of reserve money, a strengthening of the resources of the banks. The total deposits of both State banks and trust companies in 1898 were $1,500,000,000, and in 1907 $5,000,000,000, or an increase of more than three and a half billion dollars. The total cash increased from $160,000,000 in 1898 to $356,000,000 in 1907. In other words, their cash reserves stood after the increase at an amount sufficient to pay about 7 per cent of their deposit liabilities. No wonder the Knickerbocker Trust Company and some others, even if they had the average reserves of the State banks and trust companies of the country, felt it necessary to lean upon the national banks in the reserve centers when there was a run upon them for their deposits.

Now, you may say, "To be sure, their reserves were somewhat limited, but perhaps they had splendid commercial assets." Not so; at least, not to a very great degree. The total loans not commercial were in 1898 $588,000,000, and in 1907 $1,361,000,000, an increase of $772,000,000, or much more than 100 per cent. But that was not all. Their total bond and stock investment (which we are asked to increase and set aside and hold in reserve as security for new issues of notes in a bill pending in another chamber) increased from $325,000,000 in 1898 to $1,275,000,000 in 1907, an increase of $950,000,000, or very nearly 300 per cent.

Now, those two items together, total loans not commercial and total bond and stock investments, made up more than $2,600,000,000 of the assets of State banks and trust companies, their total assets being about $7,000,000,000. That would not be so bad in itself if it had been in evenly distributed proportions, but in the trust companies it was worse than in the case of the State banks. As to the loans on real estate and other collateral security, the loans on real estate of course were small and on other collateral securities, stocks and bonds, those held by State banks were very much smaller in proportion than in the case of trust companies. Now, the trust companies had been going on doing a large and profitable business for many years, and many of their officers believed that they could lean absolutely upon the national system; and so perhaps they could if the national system itself were sound. But the national banks of the country to-day have been compelled, through the lack of any coherence, of any coordination with the State systems, to become the reserve center, the reserve system of all the banking institutions of the country; and inevitably laws which were perhaps wisely framed so far as reserves were concerned in 1864 have proved inadequate when the total liablilty imposed upon those reserves has been doubled without essentially increasing the reserves. In other words, the national banks of the country as a whole have actually now an ultimate reserve liability for all the State banks and trust companies of the Union, because those companies, governed by the varied laws of different States, and in most cases by very loose laws, do not actually carry reserves which are in any way adequate.

Now, under this situation, when this entire pressure was focussed upon the little band of national reserve banks in New York City, is it any wonder that they broke down under the burden? Is it any wonder that we are here asking modifications of our banking system which shall not only give greater flexibility to the system of note issue, which is a great safeguard and resource in emergency, but are also asking the adoption of the comprehensive features of Mr. Fowler's bill, which will coordinate all these discordant factors? I have shown you that the loans were not made altogether upon sound principles. If they had been made upon sound principles, they would have been very much smaller in amount; but even if we had left them where they stood, if we had admitted their propriety, it was still essential that there should be adequate reserves held against them somewhere, and under the national banking law of course there was recognized only the obligation of the national banks of reserve cities to national banks of the smaller reserve cities and of the country at large. Nowhere in our existing legislation and our existing system is there any provision for providing an adequate reserve against this enormous mass of outside liabilities, in itself largely rigid, inflexible, and not based upon sound banking principles; and Mr. Fowler's bill, providing for bringing the trust companies and national banks into the national banking system, tends to give that coordination, that cohesion and that correlation which are essential if we are to become a solvent financial nation. And his other provisions which introduce mutuality among the banks, by imposing the burden of losses upon the banks of a given group, and authorizing examinations in anticipation of bad loans instead of after they are made, all point in the same direction and tend to a cohesion and to symmetry and unity which can never be found under our existing system, even with adequate modifications of the provisions in regard to the issuance of notes.

One of two things should be done—either a measure like this should be enacted, or a much larger reserve should be required from the national banks of the central reserve cities, in view of this great contingent liability of State banking institutions. Inevitably the only sound measure is a measure which shall coordinate the entire system, for a mere addition to required reserves in proportion to direct liabilities might be insufficient. If the national banking system of New York should cease to grow and the State bank and trust company system should continue to grow, then a few per cent more of national bank reserves would not meet the extension on the part of the trust companies and State banking institutions, nor of those same institutions scattered over the Union which keep their reserves largely on deposit in New York. The guaranty for deposits tends, in the same way that it tends to prevent the panic before it occurs, to prevent unnecessary and unwarranted runs on the banks of the country as a whole, and to remove the danger from the local banks, and it removes the motive from the local banks for appealing to the financial center at New York for excessive and unnecessary accumulations of money.

Still another menace is involved in this tremendous expansion of trust company and State banking obligations without adequate reserves, and that is this, that in those reserves are counted almost without restriction, indeed, entirely without any restriction under State law, the notes of national banks; and you all know that those

notes of national banks as they are issued to-day are not even linked to the gold movement of the world, that they are issued upon fixed securities, just the form of loan I have been decrying. They have expanded within seven years, from 1900 to 1907, by $440,000,000. Now compare these figures with the increase of reserves in State banks and trust companies. The increase in reserves in State banks and trust companies from 1898 to 1907 was $196,000,000, while in the case of bank notes the increase was more than twice that sum. Now, whether actual physical bank notes were put into those reserves or not, the fact remains that bank notes were issued in excess of this increase of reserves and took the place of so much legal tender money in circulation if the latter was held in reserve. They afforded no adequate reserve for the tremendous extension of trust company and State banking obligations, and in fact you were building a structure of paper, one story upon another, not even the narrow foundation of which rested upon the world's money of exchange, gold coin. Perhaps the State banks and trust companies are to be congratulated upon their moderation, that instead of expanding their obligations by only five billions during the last five or six years, they did not expand them by ten billions; and they probably would have done so if passably good securities had been offered as collateral for the loans. It is amazing, it is impossible, that any civilized country can go on pyramiding one paper obligation upon another in that way. It is a wonder that it went on so long.

That the crash was not worse is due to several things. First, our Government money this time was based on gold, and there was no question but that any Government obligation would be kept equal to gold. The second thing was the moderation and conservatism of the bankers who, even though they did not all understand the principles I have stated—the limiting of commercial loans to commercial paper—did not make loans on very doubtful and dubious securities. But so far as their power was concerned, theoretically, they might have gone on expanding, issuing stocks and bonds, and loaning on stocks and bonds deposited as collateral, and depositing Government bonds for bank notes and using these notes as legal reserves against their expanded loans. Now, we have pending over in another Chamber, a measure which, if it were not for its tremendous restrictions, would open the door wider still, and permit, as has been talked of at different times, two billions of municipal bonds and six billions of railroad bonds to become a possible basis of further issues of so-called currency having no relation to the world's great movement of gold. Why, if it were not for the 6 per cent tax proposed, which practically renders the measure nugatory and prevents the issue of the notes except in the most serious emergency, you would open the door for a very saturnalia of paper such as was never known. To my mind the ideal currency is a currency of bank notes redeemable in gold, through certain convenient agencies, and every nation but ours has recognized that. There is no nation to-day calling itself civilized, except possibly among the Latin-American states, which has not a better system than ours, or which is not better qualified and prepared for the emergency of war. I was out of the room for a few moments while Mr. Gage was speaking of that.

The CHAIRMAN. Go on and make your own statement.

Mr. CONANT. I do not know whether he pointed out the two alternatives that would confront us in case of war. The two alternatives

are these: Either the Government would be compelled to sell its bonds at a reasonable rate of return which would make them acceptable in the market, say $3\frac{1}{2}$ per cent—they could probably sell $3\frac{1}{2}$ per cents at par— either they would be compelled to do that, which would depreciate the existing 2 per cent bonds down to, we will say, 80 or probably lower, possibly 75; or they would be compelled to issue 2 per cent bonds and get the banks to take them. In the former alternative, the issue of $3\frac{1}{2}$ per cent bonds at par, which would force a decline of the old 2 per cents to 80 or 75, what would be the state of the bank reports made to the Comptroller? The institutions holding those bonds would have to write off on the old bonds 25 to 30 per cent of their capital if they had the whole of their capital invested in bonds. Few banks could stand that. Would such a report show any considerable surplus or any undivided profits left in the banks as a whole? It would certainly show that many of them had wiped out their surplus, and had their capital impaired.

Take the other alternative, that the Government said, "We have sold $700,000,000 of 2 percents in the past. Now we will put out a billion more twos." Evidently that billion of two's as the basis of a billion dollars of bank notes would cause suspension of gold payments and drive out approximately a billion dollars of gold and we should be floundering in a mire of paper worse than that in which we floundered during the civil war. I can see no escape from that conclusion if we continue the bond basis and extend it still further. I consider any bill that enables the further extension of the bond system as bad as any measure that was ever proposed by a South American dictator. It is perfectly suicidal to propose further extension of circulation based on bonds. You have either got to tie up the circulation so that it will be futile and not be asked for or cut your circulation off absolutely from the anchorage of the gold standard. I know that some of my statements may seem extreme and perhaps theoretical; and yet we have got to look at the problem in its broader aspects to-day; we have got to look at tendencies; we can not wisely adopt something we know is dangerous, because we have tried to draw the fangs by making it inoperative. What is the use of passing something that is based on an unsound principle and then trying to make it sound by making it impossible?

Now, there are several possible remedies for the evils we have defined. Of course a central bank would correct some of the evils under which we have been operating. Its great merit would be that it would control the financial situation in New York in a way in which it can not be controlled now until we are in full crisis. When we have a crisis now, when two or three big trust companies are suspending, the clearing-house committee gets together and says, "Now we will do something; we will issue clearing-house certificates and save the situation." A central bank saves the situation in advance. I shall point out that the bill here pending paves the way for a central bank and makes its operation more steady and effective when we obtain it. But the great merit of a central bank is that it can control the discount rate, as is not done under the present law. Theoretically it is conceivable that the presidents of the big banks, or that the clearing-house committee, could get together and say, "Gold is going out and speculation is excessive; we will raise the discount rate from 4 per cent to 5 per cent, and we will raise the rate for call money." But everyone familiar with banking in New York knows that this does not

happen. Each bank acts for itself. There are some banks that would like to act in that way. But if you had a central bank, with several officials of the Government sitting on its board—not to control its ordinary commercial operations but to see that it keeps within sound banking principles—you would see that, as in the case of the Bank of France or the Bank of Germany or the Bank of England, the discount rate would be advanced whenever there was any indication that speculation needed to be checked or that the outflow of gold should be stopped or that gold should be drawn into this country. That is the great merit of the central bank, that it stands at the center of affairs, a sheet anchor, a Gibraltar, ready to discount the paper of other institutions if it is sound, but ready to give them an admonitory word to reduce their operations if they are unsound.

But even a central bank, as I said of our big reserve banks in New York, would operate under difficulties if this whole system of State banks and other institutions were imposing all its burdens upon the bank without its power to intervene until the instant of the crisis. If these various institutions can be coordinated by offering privileges to induce them to come into the national system, if they can be offered privileges which will be valuable to them, you can superimpose your central banking structure upon this well coordinated system of national banking, and it will be able to act with greater efficiency than it could without it.

Upon the question of reserves, there should undoubtedly be some changes of law. But what is the use, as I said before, to change your law and require larger reserves in some institutions, if you can not require them in all, when all institutions lean ultimately upon the great reserve banks of New York, and those banks under the existing system are not even coordinated into a harmonious and self-aiding body? They stand alone until the crisis is upon them, and then under the imminence of absolute ruin they sometimes get together and save the situation for themselves, as they did recently, by sending currency to a premium. Reserves should be undoubtedly increased in some proportion, but that is not the whole solution of the question. Personally, I do not believe in going so far as to prohibit the carrying of some reserves in New York, because New York is the financial center of the country, and inevitably every bank of any standing has a deposit there, and that deposit should be, under any decent and sane banking system, as good as gold. The great European banks carry in their reserves great amounts in foreign bills. The Bank of Germany usually has in its reserve a great amount in bills on England, principally on London, because it is known that a bill on London is convertible anywhere and is worth its par value in gold. So ought bills on New York to be, if her ambition is to be one of the great financial centers of the world. She never can be so long as we have such a monetary system as we have at present. For a city whose banks suspend currency payments, which sees gold and currency go to a premium of 4 per cent in case of an emergency, and that premium offered for the importation of foreign gold, is as well qualified to contend for the supremacy of the world in financial matters as Rio de Janeiro or Valparaiso. Such an ambition is grotesque under such a system as ours.

Bank issues secured by bonds are only a stimulus to inflation. . It does not matter how good the bonds are. Bonds are a part of a

mortgage. A man can loan money on a mortgage and he knows that he can eventually get his money back. But what depositors in banks want is to get their money back, not eventually, but "sooner." When they put deposits in a bank, what they have a right to depend on and what they want is the certainty of being able to withdraw those deposits again on demand. The fact that the bank has got a lot of good bonds which it can liquidate some time, or has got a lot of good mortgages on its hands—bonds running until 1959 or 1970, perhaps—is of no consequence to those depositors. What they want is assets that can be converted into cash; and commercial paper, of course, constitutes such a resource. Some of it is coming due each day. And if you had your central bank, you would have paper coming due not only at the fixed date from when it was drawn, but you would have the rediscounted paper coming due very soon after it was rediscounted. That is the policy of the Bank of France and of the other continental banks. If the joint-stock banks find that they need a little currency or are hard pressed for reserves, they go up to the Bank of France and rediscount the paper they have in hand, and that paper may have already run seventy-five days out of the ninety which it has to run, so that the Bank of France always has in its custody paper maturing almost at once. Its note issue, moreover, is backed by a gold reserve of five hundred millions—nearly as large as our Treasury gold resources—so that you have in the central bank a sheet anchor; a safeguard against every possible or conceivable emergency. With their use of those powers, their power of discount of paper brought in by the joint-stock banks, without limit upon the note issues of the bank, and without definite reserve requirements, because that is left to the foresight of the bankers at its head, and with this immense gold stock they have a system which is impregnable, which nothing could shake except economic collapse of the entire industrial power of the nation.

Now, we have in the Treasury gold to the amount of $900,000,000, but it is wasted, it is useless, to a large extent. It is circulating among the public in the form of gold certificates. It is very good money, but there is no doubt that the public would be just as well satisfied with bank notes resting upon an adequate reserve. They would not be as well satisfied with greenbacks, if they understand the question, resting upon a gold reserve, because the Government is not a bank; it has no quick assets. That is the fundamental weakness of all this talk about the Government doing a banking business. How can it do such a business? To be sure, we piled up some gold there; we provided that in case of emergency the Government shall keep solvent by paying out this stock of idle gold. But the Government has not any commercial paper coming due; it has not any mortgages of railroads and steel corporations or even United States Mercantile Marine to sell or hypothecate on the market; it has nothing but its current receipts, and its current expenditures absorb these current receipts. There have been times when we have had a surplus when we needed it, and that surplus has been availed of to help the banks and avert trouble. But the real function of a bank is to meet the public demands for credit through its circulating medium and deposits—through a circulating medium secured by gold and also by commercial paper rediscounted at that central institution or these coordinate institutions of which I have spoken.

It is amazing that we approach this problem so slowly, so laboriously, with such travail. Every other country in the world, practically, has approached a central bank through a system of coordination and gradual elimination of local bank note issues. France, as you know, founded the Bank of France in the time of the great Napoleon. She had for a time some departmental banks, but the power of issue was taken from them and concentrated in the central bank, which now has its branches in the larger cities of France. Austria-Hungary has her central bank. And while we are comparing our nation with others what shall we say of Russia and Japan in their late war? Did either one of them find it necessary to suspend specie payments? Did the Bank of Russia announce that owing to the great pressure in the money market and the fall of Russian securities on the Paris Bourse they would suspend gold payments? They would probably have had to do it if the Bank of Russia had been secured by the bonds of Russia; but they were secured on the commercial resources of the country, and they were as good as gold. Even little, struggling, newborn Japan tried early in her history to base her circulation on bonds, and national banks sprung up like flowers under the breath of spring all over that land. They were all over Japan, and they put out their notes, great quantities of them. But the country was soon flooded with paper, gold left the country, and within a few years the Government brought in a proposition for creating the present National Bank of Japan and taking the power of issue gradually away from the local banks. Under this system of a central bank even under the strain of poverty, with poorly developed industrial equipment, facing one of the greatest powers of Europe in a contest that tested her to the uttermost, the Bank of Japan went on steadily maintaining specie payments. When it was found that there was some tendency to trouble, they simply floated a proper loan and strengthened their reserves, and kept on maintaining specie payments without even such a provisional suspension of payment as the Bank of France exercised in 1870. Could we do that? It is difficult to see how we could, much as I am interested in the maintenance of the honor and sovereignty of my own country.

Summing up these conclusions, I say that the provisions of the bill before you not only provide for a better bank-note system, in itself of vital importance, and which I consider of the very first importance, but it goes beyond that. It goes to the root of the great evils which were developed in our recent crisis, which were the culmination of a bad system blindly carried on, for I do not suppose that until the report of the Comptroller of the Currency was printed after the panic, anybody knew what this tremendous expansion of State and trust company banking resting upon the fragile reserves of the New York banks was. But we know it now. We know what a lofty superstructure of credit was built upon that foundation, and we have a bill here which makes it almost impossible hereafter that those operations shall go on without being coordinated with the national banking system, and if I had any amendment to suggest to this bill it would be this—that there should be some safeguard against excessive loans of deposits which are payable on demand upon negotiable securities; that either the percentage should be restricted of a bank's assets that could be thus loaned, or that the valuation of securities should be be based upon the average valuation of a period of time instead of

upon the market valuation of the moment; because it is the market valuation of the moment which has caused this tremendous pyramiding and speculation in New York.

Speculation, in my judgment, is a legitimate function; but it can be made illegitimate by being carried on wrongfully and without justification in existing conditions. What happened in New York under the system of pyramiding loans upon securities without adequate reserves was something like this, that a man having 1,000 shares of a stock worth 50 could go to a bank and borrow $37,500, and he could then take that $37,500 and divide that up between two or three brokers and by means of what is known as "wash sales" manage to convince the public that the stock was going to rise and that it was a good thing to buy. When he had worked it up to 75, he would borrow three-fourths of 75, or around 56, instead of the 37½ he had before. When he had worked it up to 150 he could then borrow 112½, where he had originally borrowed only 37½. There are securities on the New York market which have made almost those tremendous strides, and whose market value is made up partly of real value and partly through this indefinite pyramiding of loans. You could stop it, or at least check it if you would simply say that the value of the loans made shall be 75 per cent of the market value upon the average of the previous three months, instead of 75 per cent of the market value of yesterday, which perhaps was 20 points above the market value of the day before and 50 points above the value of the week before. I use these figures because there is a provision in the law of New York that a banking institution can loan upon securities only 75 per cent of their market values. I do not recall that the national banking law makes any prohibition to the effect that you can not loan 100 or 150 per cent, and I think some such provision as I have suggested would tend to check speculation and keep it within its legitimate channels—for it has legitimate channels—and to prevent that speculation which is pure inflation, which robs the people by misleading them, by misrepresenting the value of securities. You would then prevent the growth of this mushroom structure which inevitably collapses, throwing the whole burden upon the unrelated and isolated banking units of New York.

This bill takes a long, firm stride in the right direction. It coordinates the banks with each other. It would tend to prevent unwarranted and speculative loans, and bring into the national system the State banks and trust companies which have been able to carry on these speculations without restrictions as to reserves, or at least with very inadequate restrictions. I think that is all I have to say now. I would be glad to answer any questions you want to ask.

The CHAIRMAN. Do any gentlemen of the committee desire to ask questions?

Mr. BURTON. You would fix, would you, a maximum of the amount that can be loaned upon the Government securities?

Mr. CONANT. A percentage.

Mr. BURTON. A maximum percentage?

Mr. CONANT. Yes; I think the national banks of New York have ranged up to 60 per cent of their loans, but their percentage has not been anything like that of the trust companies. The trust companies, in fact, are more or less restrained by law from lending on

commercial paper, because their original purpose was not to accept deposits payable on demand. I would like to put in the record a letter on this subject which I wrote to the Evening Post at the very first outbreak of the panic.

The CHAIRMAN. Very well.

The letter submitted by Mr. Conant was as follows:

[The Evening Post, New York, Friday, October 25, 1907.]

BASIS OF SOUND BANKING.

To the Editor of the Evening Post.

SIR: Present conditions in the financial world throw light on the declaration of a well-known English authority that "nothing was easier to conduct than the business of a banker, if he would only learn the difference between a mortgage and a bill of exchange." The phrase "bill of exchange," as here used, refers more particularly to domestic bills, and is equivalent to our term commercial paper.

It is the failure to distinguish between a mortgage and a bill of exchange which is causing many of our present difficulties. The piling up of loans upon pyramids of inflated stocks and bonds is due in large degree to the great development of industrial securities in recent years. Such securities do not represent circulating capital, but fixed capital. They are simply obligations, or shares, in a mill, a railway, or mine which represent a permanent investment. They are either mortgages or something which ranks below mortgages. Securities circulate, but the property they represent is fixed. They are not, therefore, in any proper economic sense circulating capital, and are not the best basis for the investment of deposits payable on demand.

The true basis of sound banking is commercial paper, because such paper represents circulating capital. In other words, it is the product of purchases of raw materials which are converted within a short time into finished products, whose sale for consumption affords the means to pay off the paper and thereby closes the transaction. When money is borrowed on securities no transaction of this character takes place, and there is no natural and normal date for closing the transaction. Managers of banks and trust companies seek to give the character of circulating capital to securities by advancing money on them subject to repayment at call. This system works admirably in periods of prosperity, but it causes convulsion in times of adversity. The owner of a part of a mill, railroad, or mine can not convert the property into circulating capital. In his efforts to get rid of his share of it, when he finds that all the banks are curtailing their loans, he is compelled to make great sacrifices or shoulder the losses upon the banks by failing to make good his margins. Undoubtedly, in most cases the banks are foresighted enough to protect themselves by throwing the burden upon the borrower, with the result of continuous crashes in the stock market until stocks fall far below their normal value.

Nothing of this kind occurs in dealing with commercial paper. There is, of course, some field for speculation in commercial operations, but it is limited. The losses on commercial paper are calculable, like insurance losses, and are a fraction of 1 per cent per annum. When the merchant finds demand diminishing he diminishes his purchases of raw materials and his creation of finished products, thus automatically reducing his demand upon the banks. He is not tied up with a fixed volume of paper running continuously, as are the owners of stocks and bonds. The result is that he meets his obligations as they mature, and if the bank can not continue his accommodation he curtails his output. Never does commercial paper fluctuate from par down to 40 or 50, like even good securities, save in the exceptional case of the insolvency of the maker, and even then there are usually indorsements to which to have recourse.

Loans on securities are legitimate within certain limits, but within the last decade or two they have come to constitute altogether too large a percentage of the loans made from depositors' money. On the part of the New York national banks alone loans on collateral increased from $162,361,654 on October 6, 1896, to $442,210,765 on September 4, 1906, while commercial loans increased only from $151,795,029 to $259,840,272. Where stocks and bonds are not the very best and most convertible stock exchange securities, loans upon them are only disguised participations in permanent enterprises. Such participations, in one form or another, nearly wrecked the German banks in 1901 and have proved a source of disaster on many other occasions. It is to be hoped that after the present situation has cleared up, our bankers will return to the sound principle of the English writer quoted at the beginning, that they should deal in commercial paper representing circulating capital instead of dealing in the representatives of fixed capital, and try to shoulder the loss on borrowers by looking farther ahead than they.

CHARLES A. CONANT.

NEW YORK, October 24.

Mr. BURTON. Will not the result of that be the transfer of that business from national banks to trust companies?

Mr. CONANT. If that were an isolated provision, but not under this bill, which coordinates the whole system of State banking institutions with the national system.

Mr. BURTON. That is, you want it applicable to all loans by all banks?

Mr. CONANT. There is a constitutional question there, of course, whether Congress could regulate State institutions.

Mr. BURTON. Your idea is that this brings in the trust companies with the national banks, so that they all come under national supervision?

Mr. CONANT. Yes; that is the idea.

Mr. GILLESPIE. Do you think that State banks and trust companies will come under this bill?

Mr. CONANT. I think that is the tendency and purpose. It may require some additional provisions to force their hands. Of course it is not competent for Congress to take away any privilege now belonging to national banks under their twenty-year charters, with respect to note issue or anything else; but it is competent for Congress to offer such inducements to come into the new plan that it will be to their advantage to do it, and the same is true of trust companies and State banks.

Mr. WALDO. Do you believe it would be for their interest to come in under the new law?

Mr. CONANT. Oh, yes.

Mr. HAYES. Do you think it would be competent for Congress to put a tax on the commercial deposits of trust companies and savings banks, and so forth?

Mr. CONANT. It probably could be done, but I think less violent measures would accomplish what is desired. The thing that is going to accomplish it eventually, if not immediately, is the guaranty of deposits, because the State institutions must compete with the national banks with the average depositor when the one is guaranteed and the other is not.

Mr. HAYES. But before that, could we not possibly put a tax on deposits payable on demand in trust companies, which I think you would agree was very unsafe banking.

Mr. CONANT. It could be done, but I prefer to do it by less violent means.

Mr. GILLESPIE. Do you believe in the principle of guaranteeing deposits?

Mr. CONANT. Yes; correlated with these other measures. I do not know that I would advocate it as a separate proposition.

Mr. PUJO. What effect would the enactment of the Fowler bill into law have upon State banks, savings banks, and trust companies, with reference to their continuing in business?

Mr. CONANT. I think most of them would organize as national banks.

Mr. PUJO. It would drive them all out, would it not?

Mr. CONANT. To a large extent. A few of them might survive.

Mr. BURTON. Do you think it desirable to merge all these different functions performed by the different banks?

Mr. CONANT. So far as the trust companies are concerned, I think it is possible. I doubt the wisdom of bringing in the savings institutions.

The CHAIRMAN. Can you do that with the banking going on in the country as it is to-day? They are all doing a savings business now, are they not?

Mr. WALDO. Is it not true that there is no savings-bank business outside of New England and New York; that is, all the real mutual savings-bank business that there is in the country is there?

Mr. CONANT. Yes; that would be so. Of course there is the savings-bank business that is done for profit. The mutual institutions of New York and New England are very admirable institutions.

Mr. WALDO. Yes; but they are the only ones, are they not? The savings-bank business outside of New York and New England is purely conducted for profit, is it not?

Mr. HAYES. What would be the objection to organizing savings banks under a national law to fill that want?

Mr. CONANT. I do not know whether that would be within the constitutional power of Congress or not; for the national banking law, for its constitutionality, rests upon the fact that the Government controls the circulation. Of course no circulation is issued by savings banks.

Mr. HAYES. No.

Mr. POWERS. As I understand, you would rely upon the guaranty of deposits to convert trust companies into national banks, and it would have a tendency to force them to become national banks?

Mr. CONANT. To a large degree; yes.

Mr. POWERS. And that is one of the reasons?

Mr. CONANT. That is one of the reasons.

Mr. POWERS. What is to prevent the trust companies of New York State or any other State from arranging for a guaranty of their deposits, if they find that is necessary?

Mr. CONANT. You mean through a State law or voluntarily?

Mr. POWERS. Yes.

Mr. CONANT. That is conceivable, but it is doubtful, for several reasons. The banks of Oklahoma have their deposits guaranteed by the State; but if you ask existing banks to go into a voluntary guaranty of deposits, the bigger ones might not care to go into it.

Mr. POWERS. Is there any good reason why the trust companies would not be as willing to go into it under the Fowler bill as the large banks would be to go into it?

Mr. CONANT. Under the Fowler bill?

Mr. POWERS. If it was necessary to their being successful and to prevent their being transformed into national banks?

Mr. CONANT. It is conceivable that that could be done, theoretically; but practically I think you would find they would be less willing to do it. Because here we have this great fund set aside which guarantees them against loss, and you could not well constitute such a fund out of the funds of the trust companies of a single State. Of course, this proposal to guarantee deposits is practically an insurance proposal.

Mr. POWERS. You say you could not constitute such a fund out of the funds of the trust companies. Are not the deposits in the trust

companies and the State banks in excess of those in the national banks to-day?

Mr. CONANT. Yes; they are slightly in excess; but they are not acting under a common national law.

Mr. POWERS. Would not that give them the power to create an equally large fund?

Mr. CONANT. Yes, if you make them put in any funds. But the difficulty is, of course, that we want to coordinate them with the national system. Even if you have your trust companies in one or two States do it, you do not obviate the evil, but all the burden of the trust companies of other States would fall upon the banks of New York.

Mr. POWERS. I am in hearty accord with most of the provisions of the Fowler bill, but I have not quite got up to this guarantee of deposits.

Mr. CONANT. Upon the matter of the guarantee of deposits I was at first somewhat skeptical upon the ground that has been stated sometimes, that it would encourage unsound banking; but I do not believe that that would occur in this case, because the banks would have so much more to contend for. You can not say that two woolen manufacturers are going to be encouraged in producing bad goods because they are both insured. You can not say that of any industry. In other words, by eliminating the loss of the depositors, you do not eliminate the loss to the stockholder or the personal loss of the bank officer; you do not eliminate competition between two office buildings by insuring both of them.

Mr. POWERS. This is a kind of mutual insurance?

Mr. CONANT. All insurance is mutual, to an extent.

Mr. BURTON. Would this insurance of deposits prevent panics? Does not the depositor expect ultimate payment and also immediate payment whenever he desires it? Suppose there was a time of great stress, and suppose he knew that whatever he deposited with the bank would be ultimately paid to him, would he not, however, withhold his money in many instanecs because he would fear that there would be delay in receiving it?

Mr. CONANT. No. While I think the detail is not fully worked out here, my supposition would be that in case a bank failed, having this fund of $700,000,000 to guarantee the deposits, the law should provide that the depositors should be paid at once from the fund and that the fund should afterwards recover from the assets of the bank.

Mr. BURTON. Could you provide the machinery for that immediate payment?

Mr. CONANT. Yes; they do it in Canada on notes, or practically that. They have a provision there that the notes shall bear interest until paid. We might provide that the deposits should bear interest until paid, and then you could take them to any bank and get the money.

Mr. BURTON. But suppose the banks were all scant in their supply of cash?

Mr. CONANT. They will not be scant in their supply of cash if we have a proper system of note issue. I am not in favor of the insurance of deposits as an isolated proposition, but as a part of this system. Whether it is necessarily a good thing as an isolated proposition

is another matter. In Canada when a bank fails and a man has a note, that note bears 6 per cent interest from the date of the failure until it is paid, and you can go into any bank and change it. You can apply the same system to your deposits.

Mr. BURTON. It would require a certain amount of bookkeeping, would it not? There might be a dispute between the depositor and the bank as to how much he had there, and the balance would have to be ascertained. Would there not be a certain amount of delay in securing his deposit under any system of guaranty?

Mr. CONANT. Of course those disputes arise to-day between the depositor and the bank, but except in extraordinary cases the bank's version is accepted. I do not see that that would offer any difficulty.

Mr. WEEKS. Do you think that the currency system of this country had anything to do with the collapse last fall?

Mr. CONANT. Oh, yes.

Mr. WEEKS. I mean the collapse that took place before the panic; I am not talking about the panic.

Mr. CONANT. If you ask if it was the sole cause, I would say no; but if you say a cause, I would say yes.

Mr. WEEKS. What effect did it have on the collapse in October?

Mr. CONANT. It made currency so scarce that the banks were compelled to husband their reserve money. While it had all to do with the suspension of currency payments, it did not have all to do with the liquidation on the stock exchange.

Mr. WEEKS. The panic was on then.

Mr. CONANT. But it did have all to do with the suspending of specie payments. In the first place, the fear would not have arisen, with a rational currency system, that the currency would be deficient. There would not have been calls made by the country banks upon New York if they had known that all the notes they wanted could be had, both their own notes and the borrowed notes of New York. That not being the case, they called upon New York for large sums of money which had to be paid in reserve money, the banks having no authority to issue any other.

Mr. WEEKS. Was not the collapse really due to our banking methods rather than to the currency system?

Mr. CONANT. The suspension of payments was not.

Mr. WEEKS. A large amount of deposits are sent to New York, and the New York banks holding the reserves have to do something with them because they are paying 2 per cent interest on them, and they loan those reserves on what they can realize on when they need it, and that is stock-exchange collateral. Now, you have talked a good deal about collaterals; did you ever know a bank to lose a cent on a loan made on New York stock exchange collateral?

Mr. CONANT. It has been claimed that up to this panic there never has been such a loss.

Mr. WEEKS. Do you know of one in this case?

Mr. CONANT. I do not know positively as to the Knickerbocker Trust Company, whether some of their loans were on stock-exchange collateral. But that is not my point. My point is not that the trust companies could not protect themselves, but that the whole system was unsound economically, and the trust companies protected themselves at the expense of their clients.

Mr. WEEKS. The banks can not do anything else. They receive *this large amount* of money and they are paying 2 per cent interest on

it, and they loan it on something that they can realize on immediately, and that something is stock-exchange collateral, and when they want to realize they have to call those loans, and that is what brings on this collapse.

Mr. HAYES. That is what brought it on last time.

Mr. CONANT. You asked me a question. The causes you have stated had a great deal to do with the liquidation, but the panic and the suspension of currency payments could have been avoided by a proper currency system. There was no need for suspending currency payment while you had a sound currency system, even though the banks had overloaned.

Mr. WEEKS. I will admit that, absolutely.

The CHAIRMAN. Is it not a fact that our bond-secured currency which has entered so largely, to the extent of two or three hundred million dollars, into our reserves, was the cause above all other causes that led to the inflation of the last year?

Mr. CONANT. One of the causes, because the bank circulation expanded four or five hundred millions without correlative increase of reserves.

Mr. WALDO. Referring again to Mr. Weeks's question as to whether the fact of the loans on Wall street was not the cause of the trouble here, is it not a fact that if we had had a credit currency such as is provided by the Fowler bill, or some other of that kind, that emergency would have been met by the issuance of credit notes by the New York banks, and the collapse tided over?

Mr. CONANT. Yes; you would not have stopped the liquidation, but you would have made it less sudden and acute. The great merit of this system proposed by Mr. Fowler, and of all sound credit currency systems, is that you keep your notes tied to gold. You require a gold reserve.

Mr. WEEKS. Do you think there would be any advantage if the country banks were required to keep a larger percentage of their reserves in their own vaults?

Mr. CONANT. Yes; a larger percentage. I would not require them to keep all, because New York is the financial center of the country, and every bank in the country must keep some of its money there, and it is quite proper; but whether the percentage could be reduced or not is another matter. I think it could be reduced. The percentage allowed to be held in New York could be reduced.

Mr. WEEKS. Assuming that the bill known as the Aldrich bill can be passed, and no other can be passed, do you think it would be to the advantage of the country and of the currency system of the country to pass that, or to do nothing?

Mr. CONANT. Is there any provision in the Aldrich bill changing the reserve?

Mr. WEEKS. No.

Mr. CONANT. I should prefer that it should not pass. I do not regard it as desirable in any way, and I do not consider it at all necessary.

Mr. MCCREARY. Coming back to the $700,000,000 of bonds and Mr. Fowler's plan of having them called in and the banks remunerated for them, what do you think of that question?

Mr. CONANT. I do not know that I caught your question.

Mr. MCCREARY. We have a bond-secured circulation at present, and in order to save the banks from loss it is provided that these

bonds shall ultimately be taken over by the Government and paid for by the Government, the banks being paid the money for the bonds that they put out.

The CHAIRMAN. Yes.

Mr. McCREARY. I wanted to ask you how that would work out.

Mr. CONANT. I do not see any objection to it. Have you any definite objeection in your mind?

The CHAIRMAN. It is simply a question of taking 5 per cent of the reserves now required and transferring them to the Government and taking the bonds right off their hands at the price they gave for them. You carry 12½ per cent in New York, do you not?

Mr. McCREARY. Yes.

The CHAIRMAN. You would transfer 5 per cent of that 12½ per cent to the Treasury in Washington. When it is in the Treasury in Washington it would then be used to purchase these bonds. Now, it is 5 per cent of that deposit equivalent to your circulation.

Mr. CONANT. Practically you should remit bonds as part of your 5 per cent, only there are reasons why it is better to do it in this roundabout way which you provide.

The CHAIRMAN. It is 5 per cent of your deposits.

Mr. McCREARY. We have a million of circulation.

The CHAIRMAN. Then it would be the contribution of other banks that would help you out with yours. And it is the 5 per cent of your required reserves through the country that is transferred to Washington, so that the banks do not put up an additional cent, but simply transfer a part of the reserves now required for any reserve city to Washington, and there the bonds are purchased.

Mr. HAYES. The bonds are held as security.

Mr. WALDO. The bonds take the place of it.

Mr. CONANT. Practically, as I understand it, it amounts to a transfer of the bonds by the banks to the guaranty fund, but owing to the different ratio in which the bonds are held by different banks it is better to do it in the way the chairman provides.

Mr. GLASS. You think that the passage of the Aldrich bill would be detrimental to the country in that it would postpone the enactment of a sound banking and currency law?

Mr. CONANT. It would have that tendency. I hope it would not. It might be used as an argument for postponing it.

Mr. WALDO. In your opinion if the Aldrich bill should now be passed, would not that probably end any chance of a proper revision of our financial and currency laws until the next panic occurred?

Mr. CONANT. I do not know that I would care to express a positive opinion on that. It would have that tendency.

Mr. WALDO. That is what I mean; it would have that tendency?

Mr. CONANT. It would have that tendency, but it would not deter me and other people interested from going on and urging further reforms.

Mr. WALDO. But would it not have that tendency, to prevent anything being done until we were in the next trouble?

Mr. CONANT. You know more about it than I do.

Mr. WALDO. What would be the effect of the provision for clearing-house certificates in the Aldrich bill?

Mr. CONANT. I do not see that it would do any good. You can not avail yourself of it except at a heavy cost.

Mr. WEEKS. When you are approaching a panic you do not figure on cost, do you, when you are in need of money?

Mr. CONANT. That depends. There is not much advantage to the bank, as I understand it, in getting this currency at the cost involved, and if the banks suspend currency payments of course they do not need that currency. It is a matter which I have not been able to decide, whether if a crisis did occur the banks would avail themselves of the Aldrich bill or would continue to issue clearing-house certificates. I think clearing-house certificates would be cheaper. But what I want is some measure which will anticipate a crisis and not something to pull us off the rocks when we are beating to pieces upon them.

Mr. WEEKS. The clearing-house certificates do not go into the hands of the public.

Mr. CONANT. I know, but they release a certain amount of money which can be put into the hands of the public.

Mr. HAYES. You make a distinction between the certificate and the check, do you?

Mr. WEEKS. Yes.

(It was moved and seconded that the thanks of the committee be extended to Mr. Conant for his very able and interesting exposition of this subject. The motion was agreed to by a unanimous rising vote.)

HEARING

ON THE

FOWLER BILL

H. R. 12677

STATEMENT OF

PROF. JOSEPH FRENCH JOHNSON

DEAN OF THE NEW YORK UNIVERSITY
SCHOOL OF COMMERCE

COMMITTEE ON BANKING AND CURRENCY
U. S. HOUSE OF REPRESENTATIVES

FEBRUARY 19, 1908

WASHINGTON
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1908

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, February 19, 1908.

STATEMENT OF MR. JOSEPH FRENCH JOHNSON, DEAN OF NEW YORK UNIVERSITY SCHOOL OF COMMERCE.

Mr. JOHNSON. I am a teacher and not a practical man, and I come before you on short notice, without having had time to make special preparation. I understand you have been studying the subject for several weeks, and I wish to congratulate you on the evident possession of sanity which I see in your eyes, for I have long had a pretty firm conviction that a man could not continuously study the currency question for more than one week without going crazy.

When I undertake to bring before my students this problem which you are wrestling with—and I think it is the most important problem before the country, and that this committee has on its shoulders the biggest responsibility of any body of men meeting anywhere in the United States at the present time—I start out by calling their attention to the fact that there are two media of exchange, money and credit, credit being a promise to pay money. Then I show them that as business has developed in the United States there are two classes of credit, namely, the credit which every fellow will take because the man or the institution that makes the promise is so good that nobody questions the promise, and credit of limited acceptability, the maker of the promise being not very widely known, so that the credit is not taken by everybody. Those forms of credit which everybody is willing to take people commonly call money, and it is with credit of this kind that this committee is specially concerned. We have a lot of it in our currency system issued by the Government—United States notes, Treasury notes, and silver dollars (which are simply promissory notes of the Government stamped on silver instead of on paper). The promise, of course, is not on the silver explicity, but it is written in the law and is possibly implied in the words "In God we trust."

Mr. PUJO. That is not on the money any more now—"In God we trust."

Mr. GAGE. For 50 cents.

Mr. JOHNSON. Yes; for 50 cents. Bank notes, which are the promises of banks, are also commonly called money. Then I proceed to show my students that the problem runs a little deeper than that. What sort of credit money shall we have, bank notes or Government notes? The advantage of credit over money is that the money supply is fixed, while the credit supply is unlimited; that is to say, each business transaction may create the credit instrument that consummates or mediates it. That is the advantage that credit has, as a medium of exchange, over money; and bank notes, when properly issued, possess the same advantage over Government notes,

for the supply of the latter can not be changed to suit the fluctuating needs of business.

There is a still deeper problem here which has been touched upon by both speakers who have preceded me. It is a financial problem. It is a question of finance rather than of currency. Not only is money a medium of exchange, just as credit is, but it also serves as that wherein the wealth and value of the country are stored. Wealth is the product of our labor, our machines, raw material, mines, and natural resources. These are merged into one homogeneous thing, money, which finds its way into the banks, to be loaned, and no more can be loaned than has been deposited by the people.

The lending power of banks is limited absolutely by the quantity of the products, of the real products, in this country which are not consumed by the producers, but which are saved and put into the banks in the shape of money. Some bankers do not realize that. I doubt if many of them do. They have an idea that their lending power is limited merely by the amount of money they have, that that money is what they lend; whereas, as you all know, it is not money at all, but credit, and that credit is a title to goods, and if the goods are not there the credit that is loaned is so much hot air.

The currency and financial system of this country is bad in several respects. First, our Government interferes with the money market in its collection of taxes and in its disbursements. Sometimes it inflates the money market and drives gold out, as it did in 1894 and 1895, when the revenues were deficient. Sometimes it contracts the money market. We have the most artificial fiscal system of any country in the world. In fact, I know of no other country that takes money out of circulation when it collects taxes and puts it back into circulation when it pays its debts. We adopted the present system in 1846. Prior to that time we had one of the best fiscal systems in the world, but a bull got into our financial china shop and scattered things. I am something of a Democrat myself, but I have never liked the way Andrew Jackson treated the second Bank of the United States. His killing of that bank forced us to adopt the independent treasury system, which is perhaps the main reason why you gentlemen are worrying about this problem to-day.

The second defect in our system is its lack of financial unity, a point that has been dwelt upon by the preceding speakers. In finance we have never reached the e pluribus unum. We are in finance many units, antagonistic, warring units, every man and every institution for himself and itself.

A third defect is the inflexibility and inelasticity of our currency. I need say little about that, for I am sure you do not need argument on this point. Our northern neighbor, Canada, has a system which enables her to help us when we are in distress. She helped us to move our crops in 1893, and I believe she was a source of strength during the trying weeks of 1907. Canada never has runs on her banks, and, by the way, the Canadian guaranty fund has never had to pay out a penny on account of losses on bank notes. I may state, apropos of what has been said about the failure of a bank in Canada, that not only is the note of an insolvent bank worth par on account of the interest which is paid on it, but it is worth more than par; so that the man that wakes up in the morning and finds the note of a closed bank in his pocket can thank his stars, because his fortune is

increased by the amount of the premium on the note. So certain are the people that those notes are good and that the system is going to result inevitably in the payment of all the notes.

The fourth defect of our system is that we have no guardian or protector of the foreign exchanges. In 1894 and 1895 you recall how the deficiency of the revenues kept the country in a state of perpetual panic for almost three years, gold being constantly exported. The same greenbacks were presented over and over for redemption, drawing gold from the Treasury and bringing the reserve down below $50,000,000 several times. Finally the Secretary of the Treasury was obliged to go to the man in New York City who commands the confidence of all, and who in a way is the unum, the one, in finance in this country, Mr. Morgan. They went to him again this last year. You can not get unity in New York City until everybody is afraid that he is going to be blown up by financial dynamite, and then they all go to the one man, Mr. Morgan, who represents the one unifying power that I have been able to discover in finance in the United States.

A fifth defect is the insufficient capitalization of our banks. The law in this country, although nowhere else, prescribes the amount of cash reserve that a bank shall carry. Now, that is to my mind a rather curious thing. If I open a grocery store, I learn by experience how much cash I need in order to make change for my customers and how much money I ought to have in the bank in order to pay my bills. The street-car conductor learns by experience how much cash he should take out with him in the morning in order to make change. But the Congress in 1863 decided that banks in central reserve cities should keep cash reserves equal to 25 per cent of their deposits. How could they tell then what the proper reserve requirement would be ten years later? We can not tell to-day what the reserve requirements will be ten years or five years hence. However, I am well aware that it would be impossible to change the law at the present time. Nevertheless, we must not forget that a bank's reserve of cash is absolutely no indication of the soundness of the institution, nor that the adequacy of a bank's reserve depends on the character of its liabilities and not on its geographical location. If the law did not prescribe the reserves of national banks, I am confident that certain national banks in New York City would be doing what the Bank of England is doing to-day—carrying reserves from 40 to 50 per cent. The law says 25 per cent is enough; hence, every banker thinks it enough. It is not enough for some banks in New York City, and it is more than enough for others.

Bank capital needs regulation much more than bank reserves. During the last ten years the ratio of national banking capital to liabilities has declined from 19 per cent to about 12 per cent. There has been a steady decline in the ratio that the capital bears to the total of the debts of the banks. When I say "capital" I mean capital and surplus, all that belongs to the stockholder. What the stockholder puts into the bank is not held in money, and should not be. It may go into liquid assets or it may go into cash, but it is the contribution of the stockholder to resources of the institution to protect outside creditors; and as those creditors increase as the liabilities of the bank increase, the capitalization of the bank ought to increase. We have, indeed, increased the total of banking capital

during the last decade. It has increased from $500,000,000 to $900,000,000. But all that increase has been taken away from business; all that money, which was intended for the aid of business and industry, has been locked up in Government bonds on account of our curious bank-note system.

Right here let me add a word to what Mr. Gage and Mr. Conant said with regard to banks lending on securities. When a bank lends $10,000 on railroad stock it is really investing its own money in a railroad. It is diverting commercial capital, the capital which has been saved and put into the bank for the use of merchants and manufacturers, and giving it a fixed investment. For instance, suppose I have $10,000 that I would like to use in my business, but I would like to make all that I can out of it. So I buy $10,000 worth of railroad stock and then borrow from my bank $8,000 or $9,000, using the stock as collateral. Now, whose money has gone into the railroad? Certainly, if the bank had not been willing to lend me money on the stock I should not have bought the stock, but would have put my money into my business, where I needed it.

I have mentioned now all the financial and currency evils of our system. About two weeks ago, thinking this subject over and not knowing that I was going to appear before you, I wrote a short article entitled "Schemes for currency reforms," which was published in the Journal of Accountancy. I discussed briefly the plan which has been introduced by Mr. Aldrich in the Senate for emergency currency, and I said with regard to that plan something which I will read to you.

Such measures do not aim to furnish an elastic currency, one that shall expand in the autumn and contract in the spring, but merely provide for an increased issue of currency in periods of financial stress. * * * Experience has proved that clearing-house certificates backed by commercial assets of banks can safely be relied upon to satisfy the local need for currency in times of panic. It may be well to place legal sanction on this kind of currency, but it is impossible to see why anything more should be attempted. As for Senator Aldrich's bill, if one of its effects shall be to prevent the issue of clearing-house currency, such as the country used in November and December of 1907, it would leave the banks in a worse plight than they are now. Commercial banks do not make a practice of owning bonds of any kind. These are fixed assets and have no place on the ledger of a commercial bank. If Senator Aldrich's bill should become a law, only a small number of the national banks of this country would be in a position to avail themselves of its privileges. At the very time when merchants most needed help such a law would tend to draw the liquid capital of the country away from business into various forms of long-time investment. It is difficult to believe that a measure so impotent and so unsound in principle will receive the approval of Congress.

Now, 6 per cent is a high rate of interest. You can not go above that in New York, I believe. It is usury if you do, is it not, Mr. Gage?

Mr. GAGE. Not if it is on demand.

Mr. JOHNSON. The Aldrich bill would aid certain gentlemen in New York City who wish to speculate on the stock exchange, for banks can not charge merchants higher than 6 per cent, and they would have to get 7 or 8 per cent before they would dare to put those notes out subject to a 6 per cent tax. Hence such a measure would merely tend to stimulate unhealthy speculation in Wall street. The bill would lull many people—the majority of people—to sleep on this subject. Mr. George called the Aldrich bill a narcotic, but I am inclined to think it contains the elements of a drunk.

Then I considered various plans for asset currency, and I had to admit in this article that it was very difficult to devise an asset

currency issued by national banks that would be safe. If you have a circulation like that of Canada, where all paper money in circulation is bank notes, it is easy to show that no more bank notes can be put into circulation than are wanted by the people; and that if more are needed, more will be put into circulation. Notice the two important points. Before you can get elasticity all the paper money in circulation must be bank notes, and the banks must have the right to issue more notes than they are able to get out. The authorized issue of the Canadian banks is now about $97,000,000, yet they can not get much over $90,000,000 into circulation. If they should succeed in getting out ninety-six or ninety-seven millions, they would doubtless increase their capital stock, and thereby increase the authorized limit of issue. The Bank of France is authorized to issue notes equal to $1,000,000,000, whereas it now has outstanding somewhere around $900,000,000.

The CHAIRMAN. The law now is that the limit is $1,200,000,000 of our money.

Mr. JOHNSON. The Frenchmen are the people to go to for the truth about finance, and not the Englishmen. I am sorry to say that the English have not learned anything about finance since 1797, when they lost their wits through fear of Napoleon. They were scared to death for fear that the French would get their gold away from them. The British Parliament ordered the Bank of England not to redeem its notes in gold, because they thought Napoleon had gathered together a lot of its notes and had agents over there getting the gold out. They have in some respects a worse financial system than ours. Its one strong feature is the unity created by the Bank of England. Because of the power of that one central institution, in which all other banks carry their reserves, a grain of gold safely carries a much heavier mass of credit than is possible under the loose banking system of the United States.

Having in mind these two propositions, that our currency must be saturated with bank notes, and that the authorized issue of banks must exceed the possible issue, I examined the statistics of our monetary circulation and found that we currency reformers were up against a difficult proposition. November 30, 1907, there was in circulation a total of $1,500,000,000 of Government paper money. We had of gold certificates $747,000,000, of silver certificates $472,000,000, of United States notes $350,000,000. The total reserve of national banks at that time amounted to $700,000,000—gold, gold certificates, silver certificates, United States notes, and Treasury notes. Of that, probably $250,000,000 was in the form of gold coin and bullion and $450,000,000 in paper. That leaves about $1,050,000,000 of paper money actually in circulation, in our pockets, in tills of shop keepers, and in vaults of State banks. How are we going to saturate our currency with bank notes? We can not do it until somehow we get rid of that paper money. Then I wrote as follows:

Let us by way of illustration examine the measure recommended to Congress by the American Bankers' Association. In this measure it was proposed that national banks be authorized to issue unsecured notes to the extent of 40 per cent of their bond-secured circulation, said notes to be taxed at the rate of 2½ per cent; also to issue an emergency circulation equal to 12½ per cent of their capital, taxed at the rate of 5 or 6 per cent per annum. It was also proposed that convenient redemption agencies should be maintained throughout the country, so that in general no bank should be more than twenty-four hours distant from a redemption center. Now the present capitalization of national banks is about $900,000,000. We may fairly assume that it would b

$1,000,000,000 within a year or two after a measure of this sort shall have taken effect. As the measure provides that the total circulation of a bank shall not exceed its capital stock, it is evident that with such a law in force at the present time the national banking circulation could be only $300,000,000 larger than it is now. Indeed, the advocates of the measure do not contemplate any such increase of the circulation. They hold that on account of the ease with which redemption could be obtained the volume of bank notes could not be increased unless there was an actual increase in the demand for hand-to-hand money. In this view, it seems to me, they are mistaken. It must be admitted that a bank having on hand a supply of its own notes will always pay them out in preference to other forms of currency. As greenbacks and other forms of lawful money flow into such a bank they will certainly be added to its reserve, while the cash payments will be made in the notes of the bank. It follows, therefore, that if the national banks of the country had on hand $300,000,000 in their own bank notes, a constant stream of fresh bank notes would be going into circulation and an equally large flow of lawful money would be disappearing from circulation into the reserve vaults of the banks. The fact that redemption was made easy would not stop this substitution of bank notes for reserve money. It would simply make the process of substitution a little slower than it otherwise would be, but the process itself would go on until finally each bank had got into circulation all its authorized issue and was holding in its stead an equivalent amount of lawful money. The net result, therefore, would be merely the substitution in the country's circulating medium of $300,000,000 in bank notes for $300,000,000 in lawful money and a corresponding increase in the banking reserves of the country. Such an increase of banking reserves, unless brought about during a period of extraordinary increase in the need for money, would evidently mean inflation, an artificial stimulus to prices, and a large export movement of gold. And at the end, after the banks had issued notes to the authorized limit, the currency would be practically as inelastic as it was at the beginning, for each bank would have put into circulation all its authorized issue and would be powerless to respond to any increased demand for currency.

If I am right in this conclusion, it follows that no plan for the issue of bank notes by national banks can add an elastic element to the currency unless it provides for the easy issue of over $900,000,000 of bank notes, and it could not be in effective operation until bank notes had taken the place in the country's circulating medium of about $900,000,000 of lawful money. After all that amount of Government credit money—United States notes, gold certificates, and silver certificates—had been displaced by bank notes, then further issues of bank notes would be impossible unless there were an actual increase in the need for currency.

We should then have a really elastic currency, and with the exception of one and two dollar bills it would consist entirely of bank notes. But this end, desirable as it is, can not be reached except by a most perilous path. Evidently, if our banks are to substitute bank notes for the lawful money now doing service as pocket and till money, the reserves of the banks must absorb some $900,000,000 of lawful money during the process. This would mean a doubling of the lawful money reserves of our national banks and a possible doubling of discounts and deposits. Such an expansion of credit would almost certainly bring on an outflow of gold that might cause great alarm among business men and would certainly prove a serious strain upon the resources of our National Treasury.

The real objection, then, to asset currency in the United States does not lie in the nature of such currency, but in the peril which, under existing conditions, must attend its introduction. The United States has never had better currency of any kind than that supplied before the civil war by the banks of New England, and no country now has better currency than that supplied by the banks of Canada. Yet when we analyze any scheme proposing that our national banks be permitted to furnish us similar currency in this country we are brought immediately face to face with the difficulties and perils of transition. The real question is not what is a good system of bank-note issue, but how can we pass from our present bad system to one that is good?

In my opinion, gentlemen, the Fowler bill is a most satisfactory answer to the difficult questions raised in the foregoing. At first I balked at the guaranteeing of deposits. That seemed too much like praying to the Lord that he would let us drink all the champagne we want and give some other fellow the headache. But when I considered the nature of the guarantee, the fact that it was not a Government guarantee, but a guarantee or insurance of deposits by the banks *themselves,* the guarantors having the power to inspect and regulate

every guaranteed institution, I was won over to what seemed at first an unscientific and dangerous proposition. If one of the district committee provided for in this bill discovers that any bank is transgressing the laws of sound banking, the committee will have power to compel a conservative policy. The Canadian banks possess similar power at the present time, and that fact is one of the main reasons why Canadian bank notes, although unsecured, are above suspicion. Canadian banks are tied together by a common guaranty fund for the protection of note holders. On account of the financial responsibility which each Canadian bank assumes for the operations of its neighbors they have developed a system of bank examinations outside of the law, which is about as penetrating and perfect as human ingenuity can devise. I regard it a most excellent feature of the Fowler bill that it will compel the bankers of the United States to keep a sharp eye upon one another.

The Fowler bill does away with Government interference with the money market, for it proposes that the Government shall deposit its money in the banks and charge interest. I can see no reason why anyone should object to depositing the Government's money with national banks without the exaction of special security when the Government has its hands on all the assets of the banks, and furthermore is protected by a joint guarantee fund.

The bill also takes a step toward financial unity. It gives us a central board of financiers, each man bringing information about a different part of the country. That is a most important point in its favor.

As for the regulation of the foreign exchanges, I believe this bill would put us in a much stronger position than we now are in. When inflation is causing an undesirable or harmful exportation of gold we shall be able to locate the inflation and to check it.

But how about my propositions (1) that we must have a currency saturated with bank notes before we can have an elastic currency, and (2) that the limit of issue must exceed the amount needed? Here I find the supreme quality of financial genius in the Fowler bill. In the simplest possible way it clears the field of Government paper money—$1 and $2 bills excepted—and then makes inevitable an increase of national banking capital sufficient to provide for the complete saturation of the circulation with bank notes. The bill in operation will undoubtedly result in the doubling of the reserves of national banks and yet not open the door to inflation, for State banks will practically be compelled to reorganize as national banks and to increase their reserves accordingly. I do not believe the guaranteeing of deposits would result in bad banking, or that anybody would deposit in "any old national bank." People would select their banks as they do now; and the committees provided for, as definitely as the Canadian examining committees do, would keep such close watch and have such a strong whip hand over the banks, that I am inclined to think there would be less unsound banking than there is now.

Before I close I want to tell you a short story about early banking in this country. In 1791 the American Congress, in conformity with a plan submitted by Alexander Hamilton, gave a twenty-year charter to the First Bank of the United States. That bank was modeled somewhat after the Bank of England. The capital stock was

$10,000,000, of which the Government subscribed two-fifths. The bank had the right to issue notes up to the amount of its capital stock. It did business for twenty years, and there was no panic in those twenty years. There was no wildcat currency or red-dog money in those twenty years. You know the name it acquired—"The regulator of the currency." It collected money for the Government and made disbursements for the Government. If a State bank refused to redeem its notes, the Government bank refused to accept them either on deposit or in payment of taxes. That was the whip that kept the small banks in order; and the country as a result enjoyed the advantages of a currency that was both sound and elastic. Political hostility and the jealousy of State banks blocked the renewal of the charter in 1811. Financial and monetary chaos ensued and during the war of 1812 the United States was practically a bankrupt nation, being compelled to accept depreciated bank notes in the collection of revenues.

In 1816 the Second Bank of the United States was chartered, with a capital of $35,000,000, the Government subscribing two-fifths. Throughout the active career of this bank, until after Andrew Jackson withdrew the Government deposits and put them into State banks, you will find, if you study the history of the country impartially, that we had no bad banking and that our currency was as good as the national-bank money to-day. Hence, while I favor the Fowler bill, I do not regard it as the final solution of our currency and financial problem. It is by no means a makeshift or temporary measure, yet even if it shall be enacted into law the work of reform will not be completed. This great country needs financial unification in the highest degree, and that, it appears to me, can only be achieved by the establishment of a Government bank. Private persons may own its stock, as they do the stock of the Bank of Germany, but the management should be vested in representatives of the people of the United States. I will not take up your time with details, for I am told that such a bank is politically impossible.

When I was going around the country two years ago for the New York Chamber of Commerce, I presented to numerous bankers arguments in favor of a central bank of issue. This is the way they answered: "I am in favor of that, Johnson. That plan is all right, but we never can get it through. Everybody is against it." Finally I said, "I have been in ten States and talked with two hundred bankers. Do you know where Mr. Everybody lives?" I do not believe that everybody is now against it or will be against it. I think everybody will be in favor of it a few years from now. Yet, if I were a member of this committee I should get very busy finding all the fault I could with this bill, and making Mr. Fowler defend it, and when I could not find any further fault with it I should use my best efforts to get it before the House and get it passed.

The CHAIRMAN. Are there any questions to be asked?

Mr. GILLESPIE. Do you think the asset currency provided for in this bill, taking into consideration the different institutions we have, would be a success with the different kinds of currency?

Mr. JOHNSON. It is, of course, a part of the problem that I did not mention, that we have State banks and trust companies which count bank notes as a part of their reserves, and if that bill is not sufficient

to draw most of those institutions over into the banking system, I think it would fail.

Mr. GILLESPIE. The point of that is to gurantee deposits?

Mr. JOHNSON. That is a part of it.

Mr. GILLESPIE. Suppose the States overcome that by passing their own guarantee laws to save their own institutions?

Mr. JOHNSON. They could not make a guarantee strong enough.

(On motion of Mr. Weeks the thanks of the committee were extended to Mr. Johnson for his interesting address, and at 5 o'clock p. m. the committee adjourned.)

1-2.

HEARING

WITH REFERENCE TO

CURRENCY LEGISLATION

STATEMENT OF

ANDREW J. FRAME, Esq.

Waukesha, Wis.

COMMITTEE ON BANKING AND CURRENCY
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 25, 1908

WASHINGTON
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1908

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COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, February 25, 1908.

The committee met at 10.30 o'clock a. m.

Present, Representatives Fowler (chairman), Powers, McMorran, McCreary, Burton, McKinney, Pujo, Glass, Gillespie, Crawford, and McHenry.

Present also, Hon. Ebenezer J. Hill, Representative from Connecticut; Hon. Charles H. Dickerman, former Representative from Pennsylvania; Andrew J. Frame, Esq., of Waukesha, Wis., and others.

STATEMENT OF ANDREW J. FRAME, ESQ., PRESIDENT OF THE WAUKESHA NATIONAL BANK, WAUKESHA, WIS.

Mr. FRAME. Mr. Chairman and gentlemen, if I am able to give you any light on this subject, after you have thrashed it over as you have done for a long period of time, I shall feel that I have done something that will be of advantage.

I think it is generally admitted that as far as the quantity of currency that we have in the United States is concerned—say, gold, $1,600,000,000; silver, $700,000,000; legal-tender notes, $346,000,000, and national bank notes, $690,000,000—we have an ample quantity under normal conditions in the United States to-day; and the trouble which came upon us last fall so very suddenly was not, in my judgment, because of any lack of currency. It was because of an overexpansion of our credit not only in the United States, but in Europe as well. They were expanded; their pyramid of credit had grown to colossal proportions; it also had done so in the United States. Speculation had run its course from 1896 up to this date, with a constantly accelerating pace. I think that if anyone will read carefully history and political economy he will find that it is simply a case of history repeating itself. After a period of overexpansion we get into trouble and have to rectify ourselves. I think it is as clearly expressed in what Sumner says in his History of American Currency as anywhere:

"Overspeculation is speculation which outstrips the capital of the country;" further, "When we lose our heads in the intoxication of our own achievements, look on currency anticipations, which are only fictitious capital, as if they were real, use them as already earned, build other expansions upon them, then we bring a convulsion and a downfall; some time or other a liquidation must come. Then credit breaks down and there must be a settlement, a liquidation, a dividend, a new start."

I think that is exactly what occurred in the United States this last year.

The only question is with us, in my judgment, "How can we be let down easily?" We might say, "Two steps at a time from the top of the building without falling from the top of the building upon the sidewalk with such a crash as evidently, last fall, jarred the world." If we could accomplish that it would be of incalculable benefit to labor and capital alike, because this sudden drop is what stopped manufacturers and tradesmen from doing business; and when we stop the manufacturer and the merchant from doing business we turn labor out of employment. And that is the underlying cause of our prosperity—keeping labor employed.

The failure of Morse and Heinze in their pyramid banking of course brought on distrust in New York; and as the other banks were somewhat familiar with the condition of affairs which were in vogue with those bankers, they knew that they were not doing a strictly legitimate business, and they refused the assistance which they desired. They ought to be weeded out; I do not think anybody will deny that. But in doing so, as we were in an expanded condition, the question was how the rest of the banks in New York would get along when fright took hold upon the people of the country, as it naturally did to a certain extent, especially after the action of the New York clearing house in suspending cash payments. That action was flashed across the continent and almost general suspension followed in the great centers. In quite a number of the interior towns, however, that was not the case. I have the honor of being president of a bank with two and a quarter million dollars of deposits, located in a city with a population of 8,000 people, where we did not even limit cash payments.

The CHAIRMAN. Do you mean capital? What did you say the capital was?

Mr. FRAME. The capital of the bank is $150,000.

Mr. GILLESPIE. You mean the deposits, then?

Mr. FRAME. The deposits were two and a quarter millions.

Mr. GILLESPIE. You said "capital."

Mr. FRAME. I beg your pardon. We did not suspend or even limit cash payments. We were only 20 miles from the city of Milwaukee, where cash payments were suspended immediately after New York had flashed the information across the continent. We attribute that to conservatism on our part; and through not doing so, in all human probability we did not have as much cash drawn as otherwise would have been called for. As an illustration, farmer after farmer would come into the bank with a certificate of deposit for perhaps five hundred to a thousand dollars, and say: "Can we get our cash to-day?" "Yes, sir." "Are you paying cash?" "We are." "Well, but they have suspended cash payments in Milwaukee and all around the county." "That is immaterial; we are paying cash, and we are paying it to everybody that desires it." We had any number of farmers say to us: "If you have it, and we can get it, we don't want it," and they would turn and go home.

There are three methods that appear to me sound that might have avoided the colossal trouble which has ensued. First, in my judgment, a central bank plan, or a bank of the banks, somewhat similar to the Imperial Bank of Germany, is the ideal plan, except that I would eliminate the branch banking system and simply have it a bank of relief for banks generally. But, as I am informed that is entirely out of the question, at least at this session, I will not take

your time to discuss that plan, as you doubtless would prefer the Aldrich bill, which seems, in my judgment, next in importance to it. Just a word as to the third method to legalize clearing-house certificates, on which national-bank notes might be issued by the deposit of clearing-house certificates as lately issued with the Treasury Department, receiving therefor national-bank clearing-house notes. When troubles ensue, my experience has proved very conclusively, throughout the panics of 1873, 1893, and 1907, that if you have the cash to pay to the depositor, that kills panic; it is the only method to prevent great loss of confidence. Therefore, instead of the clearing-house certificates, which are simply for the purpose of the banks exchanging between themselves, you must furnish something that will liquidate the calls of the frightened depositors in cash; you must also have a sufficient quantity to loan to all solvent parties in order that the wheels of commerce be not stilled, as failure to do that is what brings great distress and trouble as the after effects of these temporary spasms.

I think that you probably will concede (or at least it looks very strongly that way to me) that the Aldrich bill is the only one that is likely to be considered seriously, or has any reasonable probability of enactment. I draw that conclusion from the sentiment of the Senate and the expression of the President in his last message to Congress, in which he says:

I again urge on Congress the need of immediate attention to the matter—

In speaking of currency—

We need a greater elasticity in our currency, provided, of course, that we recognize the even greater need of a safe and secure currency. There must always be the most rigid examination by the national authorities. Provision should be made for an emergency currency. The emergency issue should, of course, be made with an effective guarantee and upon conditions carefully prescribed by the Government. Such emergency issue must be based upon adequate securities approved by the Government, and must be issued under a heavy tax. This would permit currency being issued when the demand for it was urgent, while securing its retirement as the demand fell off.

Mr. Powers. With your permission, Mr. Chairman, I would like to ask Mr. Frame a question right here.

Mr. Frame. Certainly.

Mr. Powers. Do you think that the tax would secure the retirement of this currency?

Mr. Frame. I do, sir.

Mr. Powers. In what way?

Mr. Frame. As I have referred to that later, perhaps we might pass it for the moment.

Mr. Powers. Very well.

Mr. Frame. It is all right, gentlemen, to ask any questions that you see fit. If I can answer them I well be very, very glad to do so, and if I can not I will frankly say so. But I believe I have that on my memorandum here, so that I will refer to the retirement feature later. I thought it would be better to keep it more in line with the thought of expansion first and contraction next.

Permit me to say right here that I am not very much of an enthusiast on the question of elasticity, for the reason that I think it is very, very difficult of accomplishment. As you have already found, there are vast numbers of plans, but none have crystallized into law.

It is more nearly successful over in Europe, under the central bank plan, than in any other locality that I know of; and also in Canada to a certain extent.

The CHAIRMAN. There is larger expansion and contraction in Canada than anywhere else.

Mr. FRAME. Perhaps. Yes; I think so.

The CHAIRMAN. I mean per capita.

Mr. FRAME. I think probably that is so. But in Canada and all over Europe they have the branch banking system, which I do not think the legislators nor the bankers nor the people of the United States want to adopt. You can operate under that system where there are only a few banks, such as there are in Canada. There are perhaps thirty-five or thirty-eight central banks, all the rest of them being branches. They can pay out their own notes through their central banks, including all of their branches, which are of the same kind; then they exchange them in their different heads in the different provinces. So that the matter of quick redemption can operate successfully there, where in the United States, in my judgment, it is a physical impossibility. For instance, the Waukesha National Bank has a capital of $150,000. It issues the same amount of circulation. How is it physically possible for the Waukesha National Bank to pay out simply its own notes, and receive them back again soon enough to keep up its reserve and pay out nothing else but its own notes?

The CHAIRMAN. That is not what they do in Canada, though.

Mr. FRAME. But I say that is a physical impossibility.

The CHAIRMAN. But they do not do that in Canada. Your facts are not right. They pay out anybody's notes in Canada.

Mr. FRAME. It is not considered the proper thing to do.

The CHAIRMAN. It is considered the proper thing to do, and they do it invariably—pay out the notes of other banks.

Mr. FRAME. I do not read it exactly as you do, Mr. Fowler.

The CHAIRMAN. Why, it is not a question of reading it at all; it is a question of fact. If a bank has all of its own notes out, for which its interests are selfish, then of course it does not pay out the notes of other banks; but when it has not, when its own notes are all out, then it does pay out the notes of other banks.

Mr. POWERS. The banks pay out, in preference, their own notes.

Mr. FRAME. Yes, sir.

Mr. POWERS. But they often pay out other banks' notes, too.

Mr. FRAME. I agree with you in that respect.

Mr. POWERS. I will say to you that I live within a mile and a half of the border of Canada, and do more or less banking business over there sometimes.

Mr. FRAME. Yes, sir.

Mr. POWERS. They pay their own notes in preference, but if they have not their own for any reason they give you the notes of other banks.

Mr. FRAME. But practically they do pay out their own notes.

Mr. POWERS. Mr. Forgan, of Chicago, for years did banking right alongside of where I had a little bank, and I know just about what the method of doing business is.

Mr. FRAME. But I say it is a physical impossibility for the banks of the United States to do that, under the independent banking *system.*

The CHAIRMAN. I do not want to disturb you; but in that connection I would like to have you explain how it happened in New England, where they had 500 banks from 1850 to 1860.

Mr. FRAME. They were not limited as to the amount of notes they could issue as they would be under the national banking law.

The CHAIRMAN. Oh, yes; they were all limited, every one of them.

Mr. FRAME. Did not some of them issue 200 per cent of their capital?

The CHAIRMAN. Yes; some of them issued 50 per cent, some of them 65 per cent, and some of them 150 per cent. They were all limited, but they ran all the way from 50 per cent—well, I think some of them were as low as 25 per cent—up to 200 per cent; so they were all limited.

Mr. FRAME. In those days it was very different from what it is to-day, too.

The CHAIRMAN. In what respect?

Mr. FRAME. The business was very, very limited. The quantity of business which was done in all of New England at that time probably was not as much at it is in the city of Milwaukee to-day.

The CHAIRMAN. But how would the quantity of the business affect the transmission?

Mr. FRAME. They simply paid out their own notes, of course, in a very limited way, because the business of the country was very limited at that time.

The CHAIRMAN. I beg your pardon; they paid out everybody's notes. There was not a State in which there was a limitation.

Mr. FRAME. That was the rule, that they should pay them out as long as they held out.

The CHAIRMAN. I beg your pardon; there was no rule of the kind, any further than self-interest impelled them to pay out their own notes, because that would give them interest on their accounts; that is all.

Mr. MCHENRY. Mr. Chairman, just a question: What was the limit in the case of the New England banks at that time?

The CHAIRMAN. The limit of what?

Mr. MCHENRY. The limit of their issue.

The CHAIRMAN. It ranged not only in accordance with the size of the capital, but it ranged in different States at different figures. For instance—I can give it to you in a moment—it ranged all the way from 25 per cent on up to 200 per cent. In some States where the capital was $100,000 it would be one thing, and if it was $50,000 it was less in that same State; but they were all limited, all defined. There were 500 banks in New England, and the life of the notes was forty-eight days. I simply bring that in because that is a question for you to discuss right here.

Mr. FRAME. In the early days, when capital was insufficient, currency of that kind (which Professor Sumner dubs "coined credit") was issued to quite a material extent for the purpose of furnishing fictitious capital. In these days it is entirely unnecessary.

The CHAIRMAN. How is that? Please make that statement again.

Mr. FRAME. In the early days of a century ago currency was issued for the purpose of supplying a lack of actual capital and was called "coined credit," and which produced a fictitious capital.

The CHAIRMAN. That was where it would be used as reserve; but they did not use any of these notes as reserve up there.

Mr. FRAME. They simply issued them for the purpose of loaning them to the people. They "swapped credit" with the people.

The CHAIRMAN. Ah! They "swapped credit," but they did not loan the notes. They loaned the credit of the bank, and they could take it on the books subject to check, or they could take the notes, at their option.

Mr. FRAME. The point that you refer to, Mr. Fowler, I think has been thrashed out pretty thoroughly, and in the case of a bank in these days, with the vast quantities of surplus capital, there is not the occasion for "swapping credit" that there was in the early days for the purpose of furnishing a fictitious capital on which to do business. It was a matter of barter in those days, except that this currency was furnished occasionally for the purpose of facilitating trade; there was a shortage of capital, but there is no such shortage in the United States to-day.

On the question of elasticity and ease of issuing currency, I believe in a high tax, because the vast quantity of currency that we have in the United States to-day is ample for all ordinary conditions. In the expansion of our credit, when the country gets to a point where high interest rates prevail, in the face of our vast quantity of circulation, that is the indication that the pyramid of credit has been raised as high as it ought to go, and there ought to be a halt. If you are going to increase the currency still further and do it at a low rate of interest, you will simply add fuel to the fire of speculation.

Mr. GILLESPIE. Right there, Mr. Frame, let me ask whether this high rate of interest, instead of indicating a degree of expanded credit or inflated values or something of that kind, might not indicate an honest demand, a normal demand for more capital? Our volume is too fixed: we need more. It is not that we have too much or enough.

Mr. FRAME. In some sections of our country undoubtedly that is the case. It is more confined to the South, which is not quite as wealthy and not quite as largely developed, and the farther West, which is not developed as this eastern region, or in the northwestern region where I live. I might make an illustration there, if I will not take too much time. How much time may be allowed? I do not want to weary you.

The CHAIRMAN. Just proceed until you have finished to your satisfaction.

Mr. FRAME. When I started in the banking business, in 1862, I loaned money over our counter at 12 per cent per annum regularly. We owed large quantities of money to New England. Our farmers borrowed money there. By 1875 we had it all paid off. Our deposits were $50,000 to $75,000 in 1862. In 1875 they were $500,000. Since then we have been gradually accumulating surplus funds in Waukesha County, until to-day the deposits in the various banks of Waukesha County are nearly $5,000,000. There is an accumulation of capital which has brought the rate of interest down so that any customer that is a regular customer of the Waukesha National Bank gets all the accommodation that he desires, providing he puts up the proper collateral for it, at 5 per cent interest, from January to December. There is an accumulation of surplus capital.

Mr. GILLESPIE. Is that surplus capital or surplus credit? How much money have you got under these deposits? Do deposits indicate a piling up of capital or a piling up of credit?

Mr. FRAME. It is a piling up of the surplus of the farmers throughout Waukesha County.

Mr. GILLESPIE. Well, you do not keep the wheat; you do not keep the money?

Mr. FRAME. No, sir.

Mr. GILLESPIE. They have a credit on the books of the bank; is not that it?

Mr. FRAME. Yes, sir; then we put it into various kinds of loans. We have more or less bonds. They are convertible into cash if at any time we want it; therefore that is surplus capital.

The CHAIRMAN. What is the total of the bank loans of Waukesha County?

Mr. FRAME. I never have figured it up, but I do not think they amount to much over a million and a half dollars, or two millions.

The CHAIRMAN. What is all the rest of the $5,000,000 invested in?

Mr. FRAME. Largely in bonds; but there are loans outside. Banks buy commercial paper at Chicago and elsewhere, but as far as the Waukesha National Bank is concerned we buy very little commercial paper.

Mr. GILLESPIE. Those are credits themselves—bonds and commercial paper.

Mr. FRAME. Yes, sir; but we can sell them at any time and get the cash. I proved that very conclusively in the panic of 1873, when I raised $100,000 one day at Chicago. In 1893, when one-half of the total banking deposits of the city of Milwaukee were locked up in suspended banks, although we were only 18 miles away, and necessarily heard the reverberations up in our little district, I raised $100,000 in three hours down in Chicago on bonds, and we did not suspend cash payments even then.

Mr. GLASS. Is it usual for banks throughout the country to carry these bonds?

Mr. FRAME. I was just about to refer to that. The Aldrich bill permits banks to use bonds for the purpose of getting cash to relieve trouble. In 1896, according to the report of the Comptroller of the Currency, I believe the national banks held $189,000,000 of bonds. In the year 1907 they held $705,000,000, which shows a wonderful increase. That increase has been brought about by the vast accumulations of surplus funds in the prosperous regions throughout the country. I can understand very clearly that some sections of the country are in the same condition that Waukesha County was in forty years ago. They will emerge from it; but that is not where panics are born.

In looking over the last report of the Comptroller of the Currency, which gives detailed information of the banks, I found that in Wisconsin 80 out of 120 national banks have bonds which are practically ample to secure the advances to which they would be entitled under the Aldrich bill.

Mr. GILLESPIE. What is that sum?

Mr. FRAME. Eighty banks out of 120 banks.

Mr. GLASS. What do you estimate would be the increased value of those bonds should the Aldrich bill pass?

Mr. FRAME. I think it would make very, very little difference, for this reason: In talking with United States Treasurer Treat yesterday, he said that he had specific information that under the Aldrich bill there were two and a half million dollars of State, county, and city bonds in the United States that could be used for that purpose.

(A gentleman suggested that Mr. Frame meant two and a half billion dollars.)

Mr. FRAME. Yes; two and a half billion dollars.

Mr. BURTON. It does not seem to me that that is right. That seems too large. It seems to me as if it must be between those sums—say, $250,000,000. There is a limitation in the act, is there not? There is a limitation of proportion of bonds to assessed valuation?

Mr. FRAME. Oh, yes—that is, as to depositing them for collateral security?

Mr. BURTON. Yes.

Mr. FRAME. Just repeat that, if you please.

Mr. BURTON. I say, it is in a measure conjectural with me, but it does seem to me that there can not be two and a half billions.

Mr. FRAME. Mr. Treat told me yesterday——

Mr. GILLESPIE. Senator Aldrich stated in his speech that there were two billions—two billions of State, county, and municipal bonds, and two billions of railroad bonds.

Mr. BURTON. That is right, then.

Mr. FRAME. That would be eliminating, of course, the railroad bonds. If you add the railroad bonds, it depends entirely upon the quality which you will use as to the quantity that might be used for that purpose.

Mr. GILLESPIE. The quantity is described in his bill.

Mr. FRAME. Yes; the quantity is described in his bill. I think Mr. Treat told me that there was somewhere about two thousand million dollars railroad bonds also. So that so far as the raising of the valuations of those bonds to any very material extent for the purpose of raising only two or three hundred million dollars of emergency currency is concerned, it would make very little difference for this reason: If the bank which I represent did not have the quality of bonds that might be required under this bill, we would shift some of the bonds which we now have into the bonds that would be required under the bill, in theordinary, course of business. We would then hold those bonds as a secondary reserve, drawing interest. We would not be in the market to buy them immediately when trouble ensued. We would simply take $125,000 of the bonds which we have in our vaults, deposit them in the Treasury Department, receive $100,000 of circulation, and pay 6 per cent on it; and the only extra expense over that 6 per cent would be the transportation charges. With $705,000,000 bonds now held by national banks and such holdings are constantly accumulating, there would be more than an ample supply on hand at all times, on which to obtain emergency currency as allowed under the bill.

Mr. GLASS. If you should be wrong as to the Aldrich bill vastly increasing the values of these bonds, is not the probability that you would be selling those bonds at a large premium to some of the banks in the South and far West as a basis of circulation?

Mr. FRAME. That is just the point which I tried to make—that with the small quantity of currency that would be required, and with the

large number of banks holding the exact bonds that would be required, the demand would be very slight. In fact, as far as the banks are concerned that do not have those bonds in the South and in the far western regions, they would not buy the bonds for the purpose of issuing that circulation, because there would be nothing in it. If they could borrow the bonds there would be.

Mr. GLASS. Then, what good will the Aldrich bill do the South and the Far West?

Mr. FRAME. There are certain sections of country, and certain banks throughout the country, to which I do not think it would be of any very material benefit—that is, directly. It would indirectly, however; and as far as taking care of every little bank in the country is concerned by the Aldrich bill, I think that is a practical impossibility. But if you will take care of the great centers, and even the vast number of banks that do have the bonds, you will relieve the pressure upon the central institutions, which I can show to you right here.

Perhaps I had better state what it is I am referring to. This is the Treasury Department Abstract of Reports of Condition of the National Banks, No. 56, issued December 23, 1907. The central reserve cities, according to that abstract, hold bonds to the extent of $177,000,000. Other reserve cities hold bonds to the extent of $143,000,000.

Mr. BURTON. That is, bonds other than Government bonds?

Mr. FRAME. Other than Government bonds. Country banks hold $384,000,000. So that you can see that, as far as the holdings of the banks are concerned to-day, in the case of an issue of $250,000,000 of emergency currency or even more the banks are amply supplied with the quantity of bonds that are required. But, as I say, doubtless more or less of them would gradually shift the quality of bonds which they now hold into the quality required. Then they would hold them as a secondary reserve on which they could get cash when trouble ensued.

Mr. MCCREARY. Mr. Frame, what is the value of the Government 2 per cent bonds which makes them sell at 108½, as they have sold recently? They are selling at about 104 now.

Mr. FRAME. I could not say without a table.

Mr. MCCREARY. No; I mean, the value that is given to them is that they are bonds which are necessary in order to secure circulation, just the same as under the Aldrich bill these railroad bonds will be necessary to secure circulation; and that fact will give them a fictitious value. The value of the Government 2 per cent bonds is fictitious at 108; it is fictitious at 104; it is fictitious at 100. They are really worth and would sell for investment purposes for about 80. Now, if that is so with the Government bonds, how much more so would it be with the railroad bonds?

Mr. FRAME. I think I grasp your suggestion, and will answer it in this way: There are between nine hundred million and ten hundred million dollars of United States bonds outstanding. There is a demand for them to the extent of $700,000,000 as security for circulation. There is also a demand for them as security for deposits. Estates hold some. They are practically all absorbed. You might say that you could corner the market as far as they are concerned. You can not corner the market on county, State, municipal, and railroad bonds with such a small demand to supply a limited amount

of emergency currency collateral when compared to the total amount outstanding, which is permissible under the Aldrich bill.

Mr. McCREARY. If the market on 2 per cent bonds could be cornered—bonds which are absolutely needed and necessary for circulation—all you would have to do would be to print and put out enough municipal bonds and railroad bonds, which they have galore, and the market would not be cornered. It would permit unlimited fictitious expansion and inflation.

Mr. FRAME. With a demand for one or two hundred or three hundred million dollars of currency, with twenty-five hundred million dollars of municipal and State bonds, and with the vast number of railroad bonds, how can that make any very material difference; and especially under the proposition which I have brought before you heretofore, that as far as the Waukesha National Bank is concerned it has the bonds now. It keeps the bonds as a continual investment from year to year. We have held bonds in our institution for thirty years.

Mr. McCREARY. Mr. Frame, is that or is it not because you have not the local demand for loans in your bank?

Mr. FRAME. Yes, sir; but here is the indication, right here in this table which I gave you from the report of the Comptroller of the Currency, that there is a vast number of other banks all over the United States that are in the same condition that we are. They have the bonds; they do not have to buy them; therefore they do not bull the market. They simply take them out of their resources, they place them in the Department at Washington, they receive their currency, and they do not have to buy a single bond.

Mr. GLASS. But you admit, Mr. Frame, that that is not true generally of the banks in the far West and the South?

Mr. FRAME. There are more or less of them that it is not true of, sir; yes, sir. I do admit that. But I also say that among the country banks is not where the great troubles ensue.

Mr. GILLESPIE. If we started upon this scheme, Mr. Frame, is it your idea that we would stop there, keep up the interest rate of 6 per cent, and retain the limit on the amount of bonds? Do you not know that the demand would grow to include other bonds, and to take down limitations, and to lower the rate of interest, until finally you would have a system by which you would have a circulation based upon bonds indiscriminately all over this country?

Mr. FRAME. If we got to that point I should say it was time to stop; it ought to be stopped; and that is exactly the reason why it ought to be limited to securities of the very highest class.

Mr. GILLESPIE. If there is great danger of going out into that field, it looks as if we ought to stop before we open the gate and start in at all, if there is any other safe way to go.

Mr. FRAME. If you never legislate because you can not have perfection, you will never legislate at all. You have got to decide what is best, and do that.

Mr. CRAWFORD. Mr. Frame, under the Aldrich bill there might be a demand for $600,000,000 of these bonds; might there not?

Mr. FRAME. No, sir; I do not think so.

Mr. CRAWFORD. I say, the limitation would be about six hundred millions if there should be an immediate demand for it. Is not that a fact?

Mr. FRAME. I do not think there is any reasonable probability of anything of that kind; because, as I say, I have been through all the panics. It is not only true in the United States, but you can read the history of England, you can read the history of the same troubles all over Europe, and you will find that when you have the currency to pay immediately to your depositors you break the back of the panic, and therefore you do not want it.

Mr. CRAWFORD. I was going to ask you this question, predicated upon the suggestion I made: Would not the investors in these bonds, the private holders, hold them, seeing that there would be a demand for this class of securities on the part of the banks, and the banks would be getting ready to provide themselves with the securities required in order to obtain the currency; and would not that raise the value of all that class of bonds?

Mr. FRAME. I should think not; I do not see why it should.

Mr. CRAWFORD. There would be a market in sight for these bonds; and would not all the private holders, where they are not in the banks —you understand my suggestion ——

Mr. FRAME. I think I grasp that.

Mr. CRAWFORD. (continuing). Would they not refrain from putting these bonds on the market for the market price at the time the bill became a law?

Mr. FRAME. That is, until there was a strong demand for them at a high price?

Mr. CRAWFORD. Yes, sir.

Mr. FRAME. Well, as I stated ——

Mr. POWERS. Mr. Frame, I am a believer in your views as to raising the price of bonds. Will you permit me to make one or two suggestions?

Mr. FRAME. Yes, sir.

Mr. POWERS. I believe that the large quantity of outstanding bonds, even if you strike out railroad bonds, makes it so that this proposed legislation would not materially raise the price, as you have suggested.

Mr. FRAME. I think so.

Mr. POWERS. Let me call your attention to another thing. At the last Congress we allowed other bonds to be deposited as a condition of receiving the money that is in the Treasury. We legalized that deposit. I do not know how many of those are used. I saw by the paper last night or this morning that there are $240,000,000 of Government deposits now in the banks under that act; and nine-tenths of them—and I guess nineteen-twentieths of them—are in other bond deposits. That did not raise the price of those other bonds that have been used by the various banks as security for that money.

Mr. FRAME. Instead of the market going up in the last three or four months, it has gone down.

Mr. POWERS. Yes; that is true. And while I do not say this because I am in favor of the Aldrich bill, I do not believe that any amount of bonds that would be used would have any material effect upon the price of them; and I do not believe that the use of some two or three hundred millions of bonds to get Government deposits in the banks, which has been done since we passed that act, has affected the price of bonds at all.

Mr. GLASS. Is not that because we have an extraordinary condition in the country—demoralization and prostration of business?

Mr. POWERS. Well, we would do it again.

Mr. GLASS. Does not that have a depressing effect upon the bonds?

Mr. POWERS. I do not think it would if that had not been the case. But we are only going to use these bonds, anyhow, when we have an extraordinary condition; and we are only going to use them once in a great while. It is not like the case of the 2 per cent bonds. They are to be in constant use under the existing banking laws; while bonds to be used under the Aldrich bill might not be called for for years, and hence it would not have that effect. I only make that as a suggestion; and hence I have not placed much confidence in the idea that this would have any particular effect in raising the price of bonds.

Mr. GILLESPIE. It would not have any depressing effect on them, would it?

Mr. POWERS. I do not think it would amount to a thing. The number of the bonds is so large that I do not believe it would have any particular effect.

Mr. GILLESPIE. It looks to me as though if you enlarge the use of a thing you enlarge the demand for it and therefore you "boost" the price.

Mr. POWERS. How much do you think it would increase the price?

Mr. GILLESPIE. To whatever extent you were to enlarge the demand for the bonds; to that extent.

The CHAIRMAN. Mr. Hill has just informed me that a large bond dealer told him that he did not think that out of the four billions of bonds, including railroads and municipals, more than a billion would be available; and five hundred million is provided for. It would be a very easy thing, if you could get 5 per cent on the bonds, and you wanted to start into this business, to go and organize a bank and take out this circulation, and then start a trust company across the street to put the notes out, take out the money as reserve, and then loan six times as much as the amount of your notes which you had already created upon bonds upon which you were getting 5 per cent; and then you would find yourself afloat on the world of wild-cat inflation.

Mr. GLASS. There are but two railroads in the entire South whose bonds could be used under the Aldrich bill; and I doubt if there are many municipalities in the South whose bonds could be used.

Mr. POWERS. I do not know of a single municipality in New England whose bonds can not be used.

Mr. GLASS. I doubt if there are many in the South that could be.

Mr. POWERS. Oh, in the South.

Mr. GLASS. For the reason that the constitutions of many of the Southern States place a limitation of 18 per cent on the assessed value on the issue of bonds. I had a communication from the city council of the city of Richmond the other day asking that when the Aldrich bill comes into the House an effort be made to amend that feature of it so as to allow the bonds of the city of Richmond to be available for this purpose. The constitution of Virginia allows an issue up to 18 per cent of the assessed valuation. The Aldrich bill restricts it to 10 per cent. So that I doubt if there are many municipalities in the South whose bonds would be available; and there

are but two railroads in the entire limits of the South whose bonds would be available under the Aldrich bill.

Mr. BURTON. What two railroads are those?

Mr. GLASS. The Louisville and Nashville and the Illinois Central.

Mr. HILL. Mr. Chairman, may I make just a single suggestion on this point?

The CHAIRMAN. Yes.

Mr. HILL. I do not wish to interfere. Mr. H. Leroy Randall, president of one of the largest savings banks in New England, was here last week; and he told me that his experience was that the moment a bond was passed by the legislature of Connecticut, making it a lawful investment for our savings banks, it increased the price of that bond 10 per cent.

Mr. POWERS. It always increases the price of every bond to have it passed as an investment for savings banks.

The CHAIRMAN. Taking them on the whole?

Mr. HILL. Yes; that was his experience.

Mr. POWERS. Generally all good bonds are investments for savings banks, are they not?

Mr. HILL. Oh, no; not in New England.

Mr. POWERS. I mean municipal bonds.

Mr. HILL. They must be specified by the legislature. They can not invest in any bonds except those that the legislature previously acts on.

Mr. POWERS. That is not so in Massachusetts or Maine. In those States if they are good bonds they are all right. However, that is a mere matter for future speculation as to what effect it would have on these bonds. We have a general law stating what bonds shall be used, and you have to bring yourself within the rule in order to sell them. For investments for savings banks they always sell them that way, and all our bonds are intended to be brought within that rule.

Mr. FRAME. After a panic is over—and it generally runs, perhaps, for two or three months—the currency becomes plethoric and the banks wish to reduce it. It has always been so in every panic that I have ever passed through. Then, if there is a 6-per-cent tax upon it, it certainly will be reduced voluntarily, because there will be no profit in it; and therefore the currency that comes out under this bill is a measure of relief under pressure. Then the bank that desires to reduce its circulation simply has to deposit legal tenders with the Treasury Department or, under the Aldrich bill, national-bank notes. That process of the deposit of those notes with the Treasury Department and the taking up the securities, if it is done simultaneously by all of the banks that have gotten out this extraordinary currency, reduces the volume of currency in the country to exactly its normal level—the same level that existed before the trouble ensued.

If the banks return their own national-bank-note currency, the Treasury Department simply takes it and cancels it, and it is not reissued. If other bank notes are deposited, redemptions are made from lawful money deposited under present law. The law of 1890, permitting the Treasury to pay out lawful money deposited for retirement of bank notes, diverts such funds and should be repealed. The plea that trouble would ensue because of a shortage of legal-reserve money is not well taken. Late reports show cash reserves

held by banks approximate $700,000,000; total legal-reserve money in the country, about $2,350,000,000. If it is in legal-tender notes, then the notes that are outstanding can be sent in for redemption by any bank that may be short in its reserve at any time. If there is any trouble about reserves, the bank that holds the national-bank notes will simply send them to the Department at Washington and receive the legal tender in return. Their reserve is fixed. But no bank will take up its securities and return this circulation as long as there is any trouble. Just as quickly as the trouble is over—and, as I say, it is generally over in two or three months—it is retired, and you are back in a normal condition, and then you have no inflation.

A low-rate tax would keep this currency out just as long as there was any profit in it. It is human nature. If there was an addition of 1 per cent per month to the tax after the currency had been out for three months, I do not think it would be objectionable at all; because if there were any of the western or southern regions where the rates of interest were very high, and you wanted it retired, that would compel its retirement just as quickly as they could not make any money out of it. Or you could have a date fixed, although I do not like the fixed date, or the Comptroller of the Currency might have power to call the notes in and insist that they be retired, or find out the reason why. As far as the great, wealthy regions are concerned, it would be done very, very quickly. The last notes that would come in, probably, would be from the small western country towns where the rate of interest is very high; at least, it strikes me that way.

I think, gentlemen, that I ought not to take any more of your time, because I have, as clearly as I can, explained what to my mind is simplicity itself. We have a normal condition of circulation under our present arrangement. When trouble ensues the Aldrich bill provides cash, under a loan, with securities that most of the banks have on hand and a tax sufficiently high not to bring it out unless it is necessary.

Mr. GLASS. Is it a fact, Mr. Frame, that most of the banks have these bonds on hand? Is it not a fact that most of the bonds are held by a few banks in the large money centers?

Mr. FRAME. That is exactly where the trouble ensues. It is not in the country towns.

Mr. GLASS. Your idea, then, is that the Aldrich bill is intended to cure trouble in the large centers and incidentally prevent trouble in the balance of the country?

Mr. FRAME. Incidentally in the country, as the country banks hold $384,000,000 of bonds; and in the State of Wisconsin 80 banks out of 120 have the bonds.

Mr. GLASS. Are you prepared to say to what extent that $300,000,000 of bonds held by the country banks is available under the Aldrich bill?

Mr. FRAME. I say that if the Aldrich bill should pass, if the quality of the bonds is not what it might be for use under the Aldrich bill, the banks would gradually shift them from the kind that they had into the kind that were required. Therefore they would be always prepared to get this extra currency in order to stop panic and keep the wheels of commerce in motion; the tax would immediately retire it when the emergency was past, because there would be no profit in it after the trouble blew over and the reaction had commenced.

Mr. PUJO. May I ask you a question, Mr. Frame? We are considering the Fowler bill now by sections. Are you familiar in a general way with its provisions?

Mr. FRAME. I am sorry to say that as I did not see it until just a day or two ago, and as I have been exceedingly busy I have not had time to go through it carefully; and I do not like to talk about a subject that I do not at least feel confident in. Therefore I do not believe I ought to make any comments on the Fowler bill, which on a casual reading seems somewhat revolutionary.

Mr. PUJO. Have you given any thought to and are you willing to express your opinion on the advisability of the banks of this country guaranteeing deposits?

Mr. FRAME. I have issued an address on that subject, and I am most emphatically opposed to the guaranteeing of bank deposits.

Mr. GILLESPIE. What is your strongest objection?

Mr. FRAME. My strongest objection is that I do not care to have a banker across the street take a loan that I turn down at a higher rate of interest than I would take it for, simply because he is willing to take the risk. To draw business such a banker will pay a higher rate of interest than I am willing to pay on deposits. Men who are running that kind of banks are in evidence all over the country even now. If I turned the loan down and he took it, and he should suspend or fail, I would be compelled to pay for the liquidation of the deposits in his bank. I am conservative; he is not. I say that there is no law which you can put upon the statute books that will ever regulate the banks so that they will not do piratical things. They will bid for deposits in all sorts of ways.

Mr. PUJO. Suppose they are limited to 2 per cent?

Mr. FRAME. It does not make any difference if they are; they will give you exchange for nothing; they will do any number of things that you can not name in a bill.

The CHAIRMAN. That would be helpful to commerce, would it not, if they gave you exchange at a low rate?

Mr. FRAME. It would be helpful to commerce, but it would be death to the fellows doing business; and I think that both of them ought to prosper. I do not think it is possible to put any law based upon equity upon the statute books that will compel a man running a conservative institution to indorse for the incompetency, the dishonesty, the moral hazard of the other man, nor to indorse for the high financiers, whose reckless acts precipitated the 1907 panic and left in New York City alone $94,000,000 of unpaid deposits to-day. And yet these troubles occurred under rigid banking laws. Perfection is simply unattainable. Insuring deposits is an entirely different proposition from that of fire insurance; and even there, in the cases of the fires in Chicago, Boston, Baltimore, and San Francisco each wiped out any number of insurance companies that were doing fairly well under normal conditions. As far as an occasional depression is concerned, even though you may have a guaranty fund, let me refer to the safety-fund act of New York in 1829 and onward, under which there was a safety fund accumulated of 3 per cent, which proved a failure. The banks ran along without serious trouble, although they had a panic in 1834–35 and, I believe, in 1837, but they survived until 1841. In 1837, if that safety-fund system was an absolute success,

why did the State of New York adopt the free banking system right where the safety-fund system was in operation?

The CHAIRMAN. Do you know how it was? Do you not know why they did it?

Mr. FRAME. I do not.

The CHAIRMAN. Why, a man went into court on a deposit that was put there to secure notes, and he took the case to the Supreme Court on the ground that this fund, according to the statute, applied to the deposits. It was never intended for the deposits at all; but the Supreme Court construed the 3 per cent fund as applicable not only to the notes but to the deposits, and of course it was an inadequate amount.

Mr. FRAME. Was not that in 1840, Mr. Fowler?

The CHAIRMAN. That accounts for the whole change in the system.

Mr. FRAME. No; but the New York banking bill was passed in 1837, and I think the troubles ensued in 1840.

The CHAIRMAN. That was the time of the transition, and that was the reason for it. The whole thing was misconstrued. It was put in for a guaranty of notes; and this man, claiming that when the bank failed, he, as a depositor, was entitled to his share of it, took the case to the Supreme Court and won it.

Mr. FRAME. And in 1841 or 1842, I think it was, that guaranty which the court decided was good for deposits as well as for notes was repealed; and even in 1845 there was not enough money in the fund to the extent of $1,000,000 to liquidate the outstanding liabilities. The State even borrowed money, $600,000, I believe, and paid 6 per cent interest on it, for the purpose of liquidating those liabilities and those bonds. I think the whole thing was not finally liquidated until 1865.

I think I started on a point, and I do not believe I finished it, did I? That point was that the safety-fund law did not prevent trouble; it did not prevent panics, as they had several of them; and that therefore a law of that kind does not prevent trouble absolutely, nor, I think, even approximately. But the great and serious objection with me is that I am not willing to indorse for the other fellow, because you can not regulate him; it is absolutely impossible.

Mr. MCCREARY. Mr. Frame, speaking right on that line, under the Fowler bill there would be a system of, say, 20 or 25 zones. In those zones there would be 8 men who would be elected from the different banks in the zones; and there would be a deputy comptroller who would control things in that zone and require the men doing business in that zone to do it conservatively and do it safely. How would that plan remedy the objection you have as to wild-cat banking and speculation?

Mr. GILLESPIE. And each bank is to lose 10 per cent?

Mr. MCCREARY. And each bank is liable for 10 per cent of the losses that there may be from any bank in the zone getting into trouble.

Mr. FRAME. I think that if you will concentrate that right where it lies now, you will get more effective supervision than you will by any 10 or 15 or 20 different sets of men who will look after matters of that kind.

Mr. MCCREARY. That is what you would advocate, although you *do not think* it is possible just now—a central bank, a centralization *in the zones?*

Mr. FRAME. That is for the redemption in different localities?

Mr. MCCREARY. For the redemption and for the——

Mr. FRAME. And for examination also.

Mr. MCCREARY (continuing). And for the doing of business in those localities, and for the issuance of currency based on credit, and asset currency; and then, incidentally, for the rights and privileges that the banks have of making their loans.

Mr. FRAME. I think that from a central jurisdiction such as you have now it is decidedly more effective than it would be if you divided it up.

The CHAIRMAN. Has it been very effective in the past?

Mr. FRAME. Yes, sir.

The CHAIRMAN. What?

Mr. FRAME. Yes, sir.

The CHAIRMAN. You think that these examinations have been most efficient, do you not?

Mr. FRAME. I think that the national banking system, as far as losses to depositors is concerned, is the best system that any country has ever known; and statistics conclusively prove it.

The CHAIRMAN. How about that Chicago bank? What was that bank of Walsh's?

Mr. FRAME. The Chicago National Bank.

The CHAIRMAN. The United States Savings Bank, the Equitable Trust Company, and the Chicago National.

Mr. MCKINNEY. Mr. Frame, I would like to ask you a question, if you please. From your experience as a banker you certainly have noticed a great difference between individual bankers in regard to credits. It has been claimed here that the fear of loss to the depositors of a bank would keep individual bankers from making investments that might prove disastrous. But is that the case? Are there not bankers that might be called fair-weather bankers, enthusiastic people who are never looking for storms?

Mr. FRAME. Yes, sir.

Mr. MCKINNEY. They think everything will go all right and turn out all right?

Mr. FRAME. Yes, sir.

Mr. MCKINNEY. And do they not get into trouble periodically, with the very best intentions, and with no thought of bringing loss upon their stockholders?

Mr. FRAME. Most assuredly.

Mr. MCKINNEY. Now, then, when you come down to a general law guaranteeing all deposits, should we not at the same time have some general law that would make all men equally careful and conservative? [Laughter.]

Mr. FRAME. That is very pat. That is just why I say you can not do it.

The CHAIRMAN. Is there nothing further? Are you through, Mr. Frame?

Mr. FRAME. I think I have completed all that I am entitled to say. I will say one thing further—that as far as an asset currency is concerned, I have been opposed to that, because I believe in a currency that is so based upon security that no man will ever distrust it.

The CHAIRMAN. Do they distrust the currency in France?

Mr. FRAME. That is an entirely different proposition.

The CHAIRMAN. Just a moment; answer me. Do they distrust it in France?

Mr. FRAME. That is an entirely different proposition than it is in the United States, Mr. Fowler.

The CHAIRMAN. Do they distrust it in Scotland?

Mr. FRAME. They have an unlimited liability act there.

The CHAIRMAN. No; I beg your pardon; there is no such thing there.

Mr. FRAME. As far as the currency is concerned.

The CHAIRMAN. Oh, the currency; yes; not for the banks.

Mr. FRAME. All right.

The CHAIRMAN. Was there any distrust in New England of their currency?

Mr. FRAME. Yes, sir.

The CHAIRMAN. There was?

Mr. FRAME. Yes, sir.

The CHAIRMAN. Why did they pay for it, all through those years from 1820 to 1860, a premium of 1 to 5 per cent in all the western cities?

Mr. FRAME. Shall I quote to you what John J. Knox says on that point? I will not give you my authority; I will give you John J. Knox.

The CHAIRMAN. Do they distrust the currency up in Canada?

Mr. FRAME. That is an entirely different proposition, too.

The CHAIRMAN. Different from what it would be in the case of national banks?

Mr. FRAME. Yes, sir.

The CHAIRMAN. Why would it be different?

Mr. GILLESPIE. That is asset currency, is it not?

Mr. FRAME. Those are great, big, centralized institutions, and they have a first lien on the assets and a 5 per cent guaranty fund. No small institution is allowed to issue currency.

The CHAIRMAN. It is all on credit, is it not—a pure credit note?

Mr. FRAME. Yes, sir.

The CHAIRMAN. Speaking of their distrusting this kind of currency up there, I will say that Mr. McMorran lives on the border up there, and he says that Americans run over from our banks and hide their money over in Canada.

Mr. POWERS. But no bank of less than $500,000 capital is allowed to issue currency.

The CHAIRMAN. And it must have $250,000 paid in?

Mr. POWERS. Yes.

The CHAIRMAN. If there is nothing further——

Mr. BURTON. Mr. Frame was asked a question, and I think he should be allowed to answer it.

Mr. CRAWFORD. He is entitled to answer even if he does not support our bill.

Mr. FRAME. In the History of Banking in all Nations, page 337, under "Free and safety fund banking in New York State," it is said that "the notes of twenty-five of them were rejected, and all the safety fund and free bank notes were at a discount." That is a quotation. Again, "In December, 1840, it was reported that few brokers would

buy the notes of any free banking association," and "the notes of many of the safety fund banks of the interior are regarded with great distrust."

The same authority says, in referring to all banks of issue from 1739 to 1841, that "the estimated losses on their circulation were 18.1 millions of dollars." John J. Knox, in his history, says that from 1789 to 1864 "the probable losses to note holders were about 5 per cent per annum." Further, "the circulating notes of State banks were subject to violent expansion in times of confidence and sudden contraction when distrust occurred. The runs on the banks were not made by depositors (for they were few), but by note holders."

Here is proof, not theory, that ought to compel every patriotic citizen to stand for a secured currency to prevent distrust, that our troubles may not be doubled, as they would be under asset or credit currency.

The CHAIRMAN. Hold on—that does not apply to New England, does it? You said you were going to tell me what Knox said about New England.

Mr. FRAME. Does he not refer to New England here?

The CHAIRMAN. I do not so understand.

Mr. FRAME. He speaks of the Suffolk system. [After an examination of memoranda:] No; I beg your pardon.

The CHAIRMAN. I think so.

Mr. FRAME. But so far as the Suffolk system is concerned, the loss under the Suffolk system to the note holders was $877,000.

The CHAIRMAN. Yes; I am glad you mentioned that fact.

Mr. FRAME. Yes, sir.

The CHAIRMAN. Exactly; and it would have taken only forty years for a tax of one-eighth of 1 per cent on the note issues to have paid it; and it would have taken since the national banking system was adopted one-fifth of 1 per cent upon all the notes to guarantee them, showing that the New England system was just that much safer than the national bank system.

Mr. FRAME. And in more or less of the States of New England the unlimited liability act applied as against both the deposits and notes.

The CHAIRMAN. What States?

Mr. FRAME. I think Rhode Island has an unlimited liability act.

The CHAIRMAN. Was there ever a suit brought in any one of those New England States to recover on that proposition?

Mr. FRAME. I do not know that I have looked that up carefully.

The CHAIRMAN. I do not think there is any such law. I do not know anything about it; I never saw it, but do you know it?

Mr. FRAME. How is that?

The CHAIRMAN. Do you know that there was any unlimited liability law in any one of those States?

Mr. FRAME. I think I could quote it if I had time.

The CHAIRMAN. I never saw it.

Mr. FRAME. I have looked it up, and I think you will find it either in the Monetary Commission Report or in the Sound Currency Red Book. I think you will find it in both of them.

The point with me is that if I am loaning money I would feel just like the other 85,000,000 of our people: You put up good collateral and I will go home and go to sleep at night and will not bother

myself a minute about it; and for the last forty years no one has ever lost a night's sleep on that account. It would be the same thing with any kind of currency that is outstanding that has undoubted collateral behind it. Asset currency will not do it.

The CHAIRMAN. Is there any other country in the world that has such a system as ours?

Mr. FRAME. Asset currency will not bring that about in the case of a lot of small, independent bankers.

The CHAIRMAN. Is there any country in the world that has currency like our own?

Mr. FRAME. No, sir.

The CHAIRMAN. It has never been valueless, and yet at one time it was worth 35 cents on the dollar. That is true, is it not?

Mr. FRAME. What, the currency?

The CHAIRMAN. Yes; our currency.

Mr. FRAME. I have paid currency over my counter——

The CHAIRMAN. But our currency was worth 35 cents on the dollar in gold, was it not?

Mr. FRAME. In gold—that is, in currency, but not in gold.

The CHAIRMAN. Yes.

Mr. FRAME. In gold, it was; yes, sir.

The CHAIRMAN. Well, does that make any difference?

Mr. MCKINNEY. That was not the fault of the system?

Mr. FRAME. No, sir; it was because we had suspended specie payment.

Mr. CRAWFORD. When was that?

Mr. FRAME. During the war; immediately after the war the value of gold got to be 280.

Mr. CRAWFORD. And that was not receivable for imports duties, either.

Mr. FRAME. The gold was not receivable?

Mr. CRAWFORD. I mean the currency was not receivable. You could not pay the tariff duties with it.

Mr. FRAME. That was because the stress of the Government was such that they wanted two and a half for one to pay the expenses of the Government.

Mr. CRAWFORD. I mean when it was made receivable for tariff duties it went to par.

Mr. FRAME. Well, the Government wanted revenue. I can explain how that occurred.

Mr. DICKERMAN. The real reason for that was that they were afraid the war would not be successful and the money could not be redeemed.

Mr. FRAME. The Government needed it.

Mr. GILLESPIE. It was after the war that it was down so low.

Mr. FRAME. They had some fear that they could not redeem it, however.

Mr. BURTON. That was when the currency value was so low.

Mr. GILLESPIE. Yes; just after the war.

Mr. BURTON. That was about 1864.

Mr. POWERS. No; I think it was before the end of the war, before it closed. It went down 40 or 50 per cent after the war closed.

Mr. BURTON. It fell off very much at the close of the war. I do not think it fluctuated above 140 at any time. Very soon after

Secretary Chase's resignation, on June 30, 1864, it went up to a very high figure; and then again in July of the same year it reached another maximum.

Mr. FRAME. Two hundred and eighty, I think, was the highest—about 281.

Mr. McCREARY. Mr. Frame, you spoke about the value of collaterals, and so on, on loans. What was the trouble with the collaterals here recently that the Knickerbocker Trust Company and some of these other companies had?

Mr. FRAME. I think probably the gentleman at my right has suggested about the line of stuff they had there. That was exactly what was the matter with them. If they had taken the right kind of collateral it would have been all right. That is why I believe in a high-class collateral.

Mr. McCREARY. But there were lots of high-class collaterals that they could not take and realize on during their troubles.

Mr. FRAME. You could if you had the right kind of collateral; you could do it under the Aldrich bill.

Mr. GILLESPIE. Of course if the Government would just take them at a certain price you could always realize on them.

Mr. FRAME. You do not have to realize on the bonds. You simply put the bonds up as collateral security and get your notes.

Mr. GILLESPIE. Yes; and the Government will give you a fixed amount for the bonds.

Mr. FRAME. No; there is no sale of them. It is merely put up as collateral security; that is all. You are practically borrowing the money. That is all there is to it; and when you get through with it you pay it back again.

Mr. CRAWFORD. You do not mean to say that the failure of the Knickerbocker Trust Company brought about this panic, do you?

Mr. FRAME. I think the boil broke, and it did produce a panic in the sense of bringing it about at that particular time. We might have run along for some little period of time without it.

Mr. CRAWFORD. The conditions were here, though, were they not?

Mr. FRAME. The conditions had gradually accumulated.

Mr. CRAWFORD. According to your former statement, it was inflation of credit that produced it.

Mr. FRAME. Yes, sir. It had been gradually accumulating with the vast expansion of credit all over the country and all over the world.

Mr. GILLESPIE. Do you favor the removing of the nine million limitation on retirement?

Mr. FRAME. I think that question was thrashed out pretty thoroughly about 1882 in Congress, here; and as far as that retirement feature is concerned I would leave that open. There were some reasons at that time which would probably not prevail to-day as a reason why they limited it.

Mr. GILLESPIE. You mean you would revoke the limitation?

Mr. FRAME. I would revoke the limitation; I do not think it would make any material difference. In fact, I understand it has not made any difference since it was raised from three million to nine million per month. It has made no material difference as far as retirements were concerned.

The CHAIRMAN. Of course the retirements bear no relation at all to the currency conditions. It is purely a matter of bond speculation.

Mr. FRAME. I agree with you, sir.

The CHAIRMAN. That is a fine system of currency to have—one that relates entirely to the bonds and not to the commerce of the United States.

Mr. FRAME. I want to say right here, gentlemen, that as far as I am concerned, although I have been in the national banking business for forty-two years, if by an evolutionary process, so as not to produce any shock to the country, every national bank in the United States should be deprived of the privilege of issuing currency, and it was all done by one central institution, just as they do in Europe, without the branch banking feature, I would be perfectly willing to discontinue our present circulation in the course of time, and I believe it would be a good thing for the country, and that it would entirely eliminate the objection that was raised by the chairman.

Mr. GILLESPIE. Then that would be an asset currency?

Mr. FRAME. No, sir; not in the sense in which you would call it an asset currency; not the way I look at it.

Mr. GILLESPIE. What sort of currency would the central bank issue?

Mr. FRAME. So far as the banks of Europe are concerned that do issue currency, they are practically all issuing what might be termed gold certificates payable on demand; and the uncovered currency in any bank in Europe that is an issuing bank is very, very small in comparison to the total of uncovered currency in the United States. However, I think I will not go into that matter.

Mr. POWERS. Mr. Chairman, I move a vote of thanks to Mr. Frame for his appearance.

(The motion was unanimously carried.)

Mr. FRAME. I thank you, gentlemen, for your kindness. There is only one point that I would like to add to that, if you are putting it in the record.

The CHAIRMAN. You will have these minutes to elaborate just as you please.

Mr. FRAME. There is just one expression here that the stenographer can insert. I would just like to have him put it down, and then it will go into the record. The average coin held against the total liabilities of the twenty great centralized banks of Europe, which have a practical monopoly of all the currency in Europe, is 54 per cent.

The CHAIRMAN. That includes the silver, does it not?

Mr. FRAME. That includes the silver.

The CHAIRMAN. And the silver has to be maintained on a parity with the gold; and therefore it is just as much of a burden as a credit currency would be?

Mr. FRAME. Just the same as the silver in the United States.

The CHAIRMAN. Yes. It is a load on the gold.

Mr. FRAME. That is 54 per cent, as against 7 per cent of coin held by the national banks of the United States.

The CHAIRMAN. Is it not true that all these central banks maintain all of the commercial credits of each country where they are *located,* besides maintaining their own credits?

Mr. FRAME. To a certain extent they are a balance wheel.

The CHAIRMAN. They are the "whole thing."

Mr. GILLESPIE. And this coin supports not only the notes, but the deposits; it is the reserve for the whole thing. That is the total amount of gold and silver they hold?

Mr. FRAME. Yes, sir.

Mr. GILLESPIE. The 54 per cent?

Mr. FRAME. The 54 per cent.

Mr. GILLESPIE. That is the reserve not only for the notes outstanding, but for the deposits as well.

The CHAIRMAN. And for all the banks in the country, wherever they are located.

Mr. FRAME. As far as the deposits are concerned, they are a small moiety of the circulation outstanding. The circulation of these twenty banks is $3,500,000,000. The deposits of these banks are only $1,100,000,000. It is just the reverse as far as the national banks are concerned.

The CHAIRMAN. What is the relation of the gold in Great Britain to the commercial credits of Great Britain?

Mr. FRAME. It is very, very small, because they have this great centralized institution as a balance wheel.

The CHAIRMAN. How much is it?

Mr. FRAME. It is very small.

The CHAIRMAN. Is it 7 per cent?

Mr. FRAME. I do not think any man can tell.

The CHAIRMAN. Oh, yes; we know.

Mr. FRAME. The total credit?

The CHAIRMAN. Yes. What relation to the total credits of Great Britain does the gold in the Bank of England bear to all the commercial credits of Great Britain?

Mr. FRAME. I think that is mere speculation; I do not think any man can tell exactly.

Mr. GILLESPIE. I want to call your attention to this right here: Here is a statement of the condition of the banks in the United Kingdom, including colonial and foreign joint stock banks with London offices, and including also Canada and also Australasia. Their circulation is $416,000,000. Now, their deposits are $9,016,000,000.

Mr. FRAME. Yes, sir.

Mr. GILLESPIE. So certainly their deposits far outweigh their notes.

Mr. FRAME. I am not referring to the banks of deposit. I was referring to the banks of issue. The banks of deposit also hold reserves. But, as I understand from my last investigation, the banks in Great Britain, not including the Bank of England, held only about 4 per cent of coin on hand as against their total liabilities, whereas ours is 7 per cent. But the Bank of England is the balance wheel which takes care of them when they get into trouble, the same as it did in 1890, during the Baring troubles. They liquidated that great institution, with $105,000,000 of liabilities, and they did not suspend cash payment, as we did last fall.

Mr. McCREARY. Mr. Frame, speaking of the Bank of England, "the Bank of England is a private corporation, in the management of which the British Government has no voice. The shareholders elect

twenty-four directors, none of them in the banking business. They select a governor and deputy governor for two-year terms. The bank has eleven branches. There is no prescribed reserve, but the practice is to keep between 45 and 55 per cent. This seems large, but inasmuch as the Bank of England carries the reserve virtually for the banking system of the entire country, it is not."

Mr. FRAME. The other banks have on hand about 4 per cent of coin.

The CHAIRMAN. If there is nothing further, gentlemen, the committee will take a recess until this afternoon.

Mr. FRAME. I want to thank you very much, Mr. Chairman and gentlemen, for your kindness.

(The committee thereupon took a recess until 2.30 p. m., at which time it was announced that the consideration of the Fowler bill, by sections, would be resumed.)

[illegible] '10